United States Agency for International Development
FY 2006 Annual Budget Submission

($ in thousands)	FY 2004 Enacted	FY 2005 Request	FY 2006 Request
Child Survival and Health Programs Fund	1,824,174	1,420,000	1,301,460
Development Assistance	1,364,329	1,329,000	1,285,600
Subtotal	**3,188,503**	**2,749,000**	**2,587,060**
International Disaster and Famine Assistance	543,993	385,500	422,000
Transition Initiatives	54,676	62,800	412,600
Development Credit Authority - Admin. Exp.	7,953	8,000	9,000
USAID Operating Expenses	651,136	623,400	804,465
USAID Capital Investment Fund	98,315	64,800	95,400
USAID Inspector General Operating Expenses	36,694	35,000	43,100
Total, Foreign Operations	**4,581,270**	**3,928,500**	**4,373,625**
Agriculture - P.L. 480 Title II	1,184,967	1,185,000	1,315,000
Grand Total	**5,766,237**	**5,113,500**	**5,688,625**

Overview

The context for foreign aid has been changing since the end of the Cold War, and especially after September 11. To support U.S. foreign policy, development is as critical as defense and diplomacy. There is a growing consensus within the international development community that countries are largely responsible for their own development, and that those with sound policies and institutions make the best use of foreign aid. At the same time, it is increasingly important to strengthen fragile states, especially those recovering from conflict, and to support strategically important states, to enhance regional stability, counter terrorism and contribute to other U.S. foreign policy objectives.

In response to this changing context, USAID has three budget priorities for FY 2006:

- A $345 million shift in funds from Development Assistance (DA) resources to the Transition Initiatives (TI) account to respond quickly and effectively to the special needs of countries that require support for post-crisis stabilization, reform and reconstruction (Afghanistan, Sudan, Haiti and Ethiopia).

- A realignment of the remaining DA resources through a uniform process that rewards low-income good-performing countries most likely to benefit from assistance, thereby maximizing the impact of this assistance and accelerating development.

- A $181 million increase in Operating Expenses (OE), which is vital to effectively implement the full range of USAID programs, including those funded by transfers from other agencies. The increased OE level will also allow implementation of key management initiatives such as the Development Readiness Initiative to ensure that the agency has the capacity needed to effectively manage both planned and unanticipated programming needs.

At the same time, USAID will continue to focus on support to high priority programmatic initiatives, including HIV/AIDS, trade capacity building and education.

To implement these priorities, USAID requests an FY 2006 budget of $5.7 billion for programs directly managed by the Agency and the associated operating costs -- 11% over the FY 2005 request (not considering potential FY 2005 supplementals) but a slight decrease from the FY 2004 enacted level.

In addition, USAID expects to implement $4.1 billion from accounts co-managed with the Department of State, resulting in a total budget of $9.8 billion and the OE request is premised on this funding level. However, if estimated transfers of $1.2 billion from the Millennium Challenge Corporation (MCC) and the Global AIDS Coordinator should materialize, USAID could oversee a budget approaching $11 billion, requiring additional administrative funds. The Agency is pursuing a standard rate for charging for the added administrative costs of managing such program increases.

Joint Strategic Plan

Building on the National Security Strategy, which identified development as one of the three strategic areas of emphasis, along with defense and diplomacy, USAID and the State Department established a Joint Strategic Plan to harmonize foreign policy and development goals. The Agency's FY 2006 budget reflects USAID programmatic priorities in six of the plan's strategic goals: democracy and human rights; regional stability; counterterrorism; social and environmental issues; humanitarian response; and management and organizational excellence. Through its “US Foreign Aid – Meeting the Challenges of the 21st Century” (USAID’s aid effectiveness strategy), the Agency has sought to better rationalize the allocation and strategic management of its budgetary resources, aligning resources with specific goals through its strategic budgeting process.

Aid Effectiveness and Strategic Budgeting

In accordance with the Presidential Management Agenda’s emphasis on budget and performance integration, the State-USAID Joint Strategic Plan, and the development goals laid out in USAID’s aid effectiveness strategy, the Agency has improved upon the corporate strategic budgeting approach developed last year by applying uniform methodology across bureaus to evaluate country performance in different regions. USAID relied upon the following indicators in establishing this approach:

- Millennium Challenge Corporation’s (MCC) sixteen measures for: ruling justly, investing in people, and economic freedom. These illustrate the strong positive correlation between country performance and overall aid effectiveness.

- International Development Association’s (IDA) Country Policy and Institutional Assessment (CPIA) rankings, which analyze countries’ socio-economic and structural policies.

- Published internal peace and political stability indicators.

Integrating these criteria with the Agency’s aid effectiveness framework, countries were classified into:

- "*Transformational development*" states - considered to be stable and undergoing long-term structural change towards graduation from foreign aid; good candidates for growth. Countries are further classified as: top performers (MCA eligible), good, fair, and weak performers.

- "*Strategic*" states - where the content of the program is more influenced by foreign policy concerns; and assistance objectives are developed by the State Department, the National Security Council, and/or Congress.

- "*Fragile*" states - failing, failed and recovering states; require immediate and short-term aid for stability, reform and capacity for transformation.

In the latter category, the Agency made a decision to shift Development Assistance (DA) funding for four key fragile states, namely Afghanistan, Sudan, Haiti and Ethiopia from the DA account into the Transition Initiatives (TI) account. The decision was based on two considerations:

- The transitional nature of necessary current assistance, and the resource and operational flexibility required in supporting these programs.

- The disproportionate budgetary impact of these four large programs on the DA account, since allocations to the countries are not performance-determined.

The TI account provides more appropriate and responsive short-term aid to dynamically respond to critical post-crisis stabilization, reform and reconstruction needs with the necessary flexibility. USAID wants to step up both the intensity and the breadth of our support to stabilize fragile states, using resources that allow us to respond to the need for basic security, as well as immediate political, economic and social stability. The Agency expects to work closely with the State Department's Office of Reconstruction and Stabilization, bringing our deep operational experience to the table.

Applying accounts like TI to these country cases gives USAID the leeway to work on the range of country stability issues and conserves our development assistance for better performers. These better- performing countries show the most promise for using aid effectively; they were rewarded for their performance with targeted funding increases that will focus on their long-term transformational development needs. This is done with the goal of graduating them out of future foreign aid. Allocations to individual good performing countries were adjusted according to specific conditions in each country (e.g., absorptive capacity), the status of the program (e.g., pipeline and mortgage considerations) and policy factors. Countries with weaker policy performance and governance will receive vital technical assistance and support for basic needs to move them onto a reform trajectory.

Child Survival and Health Programs Funds were allocated strategically based on sector specific criteria. Family Planning and Reproductive Health funds were allocated by taking into account country-level needs, measured in terms of population density, fertility and mortality rates, and unmet need for family planning. As a result, USAID reallocated over $30 million of FY 2004 Family Planning/Reproductive Health funding to higher-need countries, using strategic budgeting. For Child Survival and Maternal Health, HIV/AIDS, and Other Infectious Diseases, USAID has developed criteria for country selection based on an analysis of the national disease burden, political commitment by national governments, the infrastructure capacity, opportunities to leverage other partners and the overall potential for success. This approach allows for the most effective targeting of resources and the greatest impact on the health of a population.

Humanitarian Assistance (IDFA, TI, and PL 480 Title II Food Aid) will continue to be available to countries and people in need without conditions. Resources that support a quick and varied response to emergencies will allow us to be effective in this important endeavor.

Agency Priorities

The corporate approach to strategic budgeting, highlighted in the aid effectiveness strategy above, enables USAID to operationalize the Agency's goals of promoting transformational development, strengthening fragile states, supporting strategic states, providing humanitarian relief, and addressing global/ transnational issues in a more rational way. This allows us to achieve maximum impact by effectively allocating U.S. development assistance resources, complementing strategic priorities identified in the Joint Strategic Plan. USAID's priorities for the FY 2006 budget also include promoting economic growth to move countries into the global trading system, and promoting human rights and democracy.

USAID will support U.S. foreign policy goals with special emphasis on Iraq, Afghanistan, Pakistan and Sudan, as well as other front-line states in the War on Terror in the ANE and AFR regions. The Agency's Iraq programs will be funded from the Economic Support Fund (ESF) and other appropriations. USAID will also target resources to the Muslim World Initiative to support transformation of those societies and address the root causes of terrorism.

The Agency also supports on-going commitments such as education initiatives in Africa and Latin America, the TRADE initiative, Global Climate Change, the Congo Basin Forest Partnership, Illegal Logging, the Initiative to End Hunger in Africa, and Water for the Poor. These core development-related initiatives achieve a broad range of results in partnership with USAID priorities, and are implemented in a variety of ways, ranging from strengthening democratic institutions, providing training, technical assistance or policy analysis, to delivering direct services.

The FY 2006 request also maintains robust funding for AFR and ANE programs: including expanding access to quality basic education, and providing youth education directed towards the job market. In the Greater Horn of Africa, USAID will support peace, stability, economic growth, and work towards reversing the chronic food insecurity of the most populous country in the region, Ethiopia. Furthermore, USAID will support the U.S.-Central American Free Trade Agreement (CAFTA) to implement sound policy, trade liberalization, and economic reforms.

The HIV/AIDS pandemic 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 in the most productive age groups and in developing counties that can least respond. Under the leadership of the State Department's Global AIDS Coordinator, USAID will scale up its work in expanding access to anti-retroviral treatment, reducing mother to child transmission, increasing the number of individuals reached by community and home-based care, providing essential services to children impacted by HIV/AIDS, and promoting education and behavior change programs that emphasize prevention of transmission.

The President's Management Agenda

USAID has made significant progress on and remains steadfast in its support of the President's Management Agenda (PMA) and is embracing the PMA disciplines as regular management practices for focusing on program results and costs. The Agency has improved its status ranking to "yellow" for e-government and budget and performance integration, and is implementing a number of management reforms and major investments to achieve "green" status in all areas. Accomplishments to date on all five PMA initiatives are detailed in the "Management Landscape" section of the FY 2006 Joint State-USAID Performance Plan. In FY 2006, OE funding is requested to support the following:

- *Strategic Management of Human Capital ($65.6 million):* This request reflects the Agency's commitment to fully implement its Human Capital Strategy and achieve a "green" status rating in FY 2006. With these funds, USAID will continue to improve staff training, and study requirements for a Human Resources Information Management System. To increase human capacity, USAID has prioritized the Development Readiness Initiative (DRI), which builds on Secretary Powell's Diplomatic Readiness Initiative. Along with USAID's management reform initiatives, DRI will make the Agency more agile and better able to respond to changing foreign policy concerns. The demand to meet complex foreign policy and international development challenges requires a USAID with modern business systems, organizational discipline, and the right number of qualified, well-trained people to manage its programs.

  USAID's management priorities for FY 2006 are to: strengthen and right-size the workforce; complete the DRI; modernize business systems and support State-USAID joint systems integration; improve program oversight and accountability; and further regionalize overseas operations.

- *Competitive Sourcing* ($.5 million): This request includes costs associated with preliminary planning requirements and the costs to conduct selected competitive sourcing competitions that are subject to BTEC endorsement. These activities directly address the criteria to achieve a "green" status rating on the PMA scorecard.

- *Improved Financial Performance ($15.1 million):* The request will allow USAID to complete the implementation of the Procurement System Improvement Plan (PSIP) and the State/USAID Joint Financial Management System, including a worldwide transition to an integrated accounting system. These investments will keep the Agency on track for achieving a "green" status rating in FY 2007.

- *Expanded Electronic Government ($7.1 million):* With these funds, USAID will strengthen management of the information technology portfolio and continue its full participation in enterprise architecture improvements, e-training, e-grants, and other government-wide e-government initiatives. These efforts address the criteria for the "green" status rating the Agency expects to achieve in FY 2005.

- *Budget and Performance Integration ($8.3 million):* The Agency is on-track for a "green" status rating in FY 2005 and is continuing efforts to improve in this area. The request will allow USAID to support Activity Based Costing and Management (ABC/M), maintain the strategic budgeting model, and improve the Annual Report database, areas critical to integrating cost and performance information in the budget process. The Agency will also invest in new Executive Information and Knowledge Management Systems to provide managers better access to information for budget decision-making. These investments will also allow the Agency to incorporate the results of the Program Assessment Rating Tool (PART) assessments into its budget formulation processes by better enabling the Agency to link budget decisions to performance.

<u>Program Assessment Rating Tool (PART) Overview</u>

USAID has made significant progress in using OMB's Program Assessment Rating Tool (PART) to improve the Agency's effectiveness in strategic program planning and budgeting. The PART reviews at USAID began in FY 2002 with assessments of Population, Global Climate Change, and P.L. 480 Title II Food Aid programs. OMB determined that USAID's population program has a relevant purpose and design for achieving its objectives and gave it an impressive score of 82 equating to a rating of "Moderately Effective". The results of these PARTs informed FY 2004 budgeting for population and global climate change in the environment sector.

In FY 2003, in consultation with OMB, USAID moved from a sector focus to a geographic focus. Consequently, for FY 2003 OMB and USAID completed a program performance assessment of the LAC region programs funded by CSH and DA, as well as to the Agency's Transition Initiatives program.

In FY 2004, USAID completed a program performance assessment of the Agency's OE and CIF funded management services. The Agency received a score of 70, equating to a rating of "Moderately Effective," on this PART review due to recently implemented management reforms such as: use of performance information to make process improvements and information technology (IT) capital planning and investment control processes to improve the selection and oversight of IT investments. In addition, USAID conducted re-assessments of two previously "PARTed" programs in our LAC Bureau; both the DA and CSH accounts were assessed composite scores of 75, equating to "Moderately Effective," a significant improvement from their previously assigned assessment of "Results Not Demonstrated." By the close of FY 2004 PART cycle, USAID will have assessed nearly 60 percent of its programs.

Information gathered in the PART helps managers identify strengths and weaknesses of programs, and allocate resources appropriately to address them. It is the basis for providing evidence-based funding requests aimed at achieving specific, positive results. USAID has taken a number of actions in response to PART findings completed through FY 2003, including increasing the use of common performance measures, improving the measurability of performance goals, and allocating funding more strategically. Additional details about specific PARTs that have been completed are provided under the individual account papers in this submission.

USAID will begin implementing recommendations generated by OMB from the FY 2004 cycle as soon as the final PARTs are received.

Pipeline Management

USAID policy calls for forward funding of program obligations not to exceed 12 months beyond the fiscal year of obligation, which means that pipelines generally should not exceed an average of 18 months of anticipated expenditures. This is to ensure that the size of an operating unit's pipeline is appropriate to meet its program objectives.

As of June 30, 2004, USAID's program pipeline was $8.5 billion, which equates to 11.6 months of anticipated expenditures. As of June 30, 2003, the Agency's program pipeline was $6.1 billion, which equated to 9.7 months of anticipated expenditures. This constitutes a 20% increase in months of expenditures, and an increase in total pipeline of $2.4 billion, for the period from June 2003 to June 2004.

Approximately $1.8 billion of the increase in total pipeline is attributable to obligation activity in the Iraq Relief and Reconstruction Fund (IRRF). With 16.3 months of anticipated expenditures, the IRRF pipeline is within the program standard. However, because the IRRF now accounts for 24% of the Agency's total pipeline, the volume of obligation activity there is responsible for much of the increase in the Agency's months of expenditures.

Still, the Agency overall level of 11.6 months of anticipated expenditures is well within the program standard, and demonstrates USAID's ability to manage its expenditures during periods of increased obligation activity in order to maintain its pipeline within acceptable levels.

The regional bureau pipelines are (in months of expenditures): Africa, 14.8; Asia and the Near East, 12.5; Europe and Eurasia, 8.9; and Latin America and the Caribbean, 11.6. All Bureaus are currently operating within the established policy. However, there are a few operating units within each Bureau that exceed the guidance limits. Where an explanation for these excess pipelines is not apparent, USAID's Bureau for Policy and Program Coordination (PPC) will work with the appropriate regional bureaus on further review and analysis.

USAID has instituted quarterly pipeline reporting to keep senior agency management apprised of the status of the Agency's pipeline. These quarterly reports include data by bureau and account, and are intended to focus increased attention on the Agency's pipeline. This should result in faster response to pipeline issues and better overall pipeline management.

Child Survival & Health Programs Fund

The FY 2006 request for the Child Survival and Health Programs Fund is $1.3 billion, a decrease of $118.5 million from the FY 2005 request, and $522.7 million from the FY 2004 enacted level.

Investing in the health of the world's population contributes to global economic growth, reduction of poverty, a sustainable environment, and regional security. The FY 2006 request reflects a continuing commitment to improved health interventions that address critical health, HIV/AIDS, nutrition and family planning needs world wide. CSH funding supports programs that expand basic health services and strengthen national health systems to significantly improve people's health, especially that of women and children and other vulnerable populations. Moreover, protecting human health and nutrition in developing and transitional countries directly affects public health in the U.S. by preventing the spread of infectious diseases that know no borders. USAID's health programs contribute to the U.S. Department of State and USAID performance goal of "improved global health, including child, maternal and reproductive health, and the reduction of abortion and disease, especially HIV/AIDS, malaria, and tuberculosis."

USAID has been a leader in implementing programs that respond to the explosive HIV/AIDS epidemic – playing a key role in the USG response led by the Global AIDS Coordinator at the Department of State. USAID's role remains critical to the success of prevention, care and treatment interventions. USAID's Child Survival and Health program also must attend to the ongoing challenges of child, maternal, and reproductive health, including family planning. It must also be vigilant in responding to infectious disease threats in USAID-assisted countries. In these areas, USAID will continue to focus on scaling-up proven interventions that respond effectively and efficiently to the largest public health challenges and developing key life-saving technologies for the future.

<u>Regional Programs</u>

Africa ($373.8 million): A healthier population is critical to Africa's efforts to reduce poverty and improve living standards. However, during the past decade health status gains have been undermined in many countries of the region by increasing poverty, conflict, the rapid spread of HIV/AIDS and other infectious diseases, such as TB, malaria, meningitis and cholera. The disease burden in Africa is the highest in the world and life expectancy has continued to decline to less than 50 years in the countries most affected by HIV/AIDS. The highest HIV/AIDS prevalence countries are seeing an actual increase in under-five mortality rates. Investments in health systems and basic health interventions have not kept pace with need. The request will expand existing health programs to address the regions critical needs, and will focus on linking child survival and HIV/AIDS programming.

Asia and the Near East ($260.7 million): The Asia and the Near East region is the most populous in the world with the largest number of preventable maternal and child deaths. In the ANE region there are 7.1

million people who are HIV positive. This number is expected to increase substantially as the epidemic spreads from high risk groups to the general population in countries like India, Cambodia, Indonesia and others. Investing in the health of the population contributes to US foreign policy interests by promoting economic growth, reduction of poverty, a sustainable environment, and regional security and stability. The request will focus on key health interventions to prevent child and maternal deaths; prevent, treat, and provide care and support for HIV/AIDS; prevent other infectious diseases, and provide family planning.

Latin America and the Caribbean ($131.8 million): The LAC region has the second highest HIV/AIDS rate in the world, with over two million people living with HIV. Diseases such as malaria and dengue are posing an emerging threat as well. LAC has made significant progress in increasing vaccination coverage and reducing or eliminating major childhood illness as measles. While progress is being made to lower maternal mortality and apply proven cost effective protocols for combating malaria, TB, and other infectious diseases rates remain unacceptably high. The request will focus on key health interventions to prevent and treat HIV/AIDS, child survival and maternal health, and other infectious diseases.

Central Programs

Bureau for Global Health ($319 million): This request will sustain GH's efforts to coordinate with the Global AIDS Coordinator to provide technical and programmatic support to reduce HIV transmission and mitigate the impact of the HIV/AIDS pandemic. This request will also provide funding to diminish the threat of infectious diseases, save children's lives and reduce maternal mortality, and promote healthy families. GH brings new partners and new technical areas to the field, thereby building future expertise. For example, GH has become the repository for state-of-the-art thinking in biomedical, social science, and operational research, by developing, testing, and disseminating new technologies and methodologies that contribute to successful field program implementation. This includes strengthening priority-based research and advancing evidence-based programming (e.g., HIV/AIDS approaches of Abstinence, Be Faithful, and Condoms – ABC); the identification of zinc as a lifesaving nutrient; and developing a new and better oral rehydration solution.

Other Central Programs ($216.4 million): Of this amount, $204.4 million will support International Partnerships, such as the Global Alliance for Vaccines and Immunization (GAVI). The Europe and Eurasia Bureau (E&E) will program $6 million for HIV/AIDS activities. The remaining $6 million will allow the Policy and Program Coordination (PPC) Bureau to support essential policy development, knowledge management, and strategic budgeting; and allow the Democracy, Conflict, and Humanitarian Assistance Bureau (DCHA) to provide technical leadership and oversight for the Displaced Children's and Orphans Fund (DCOF).

Sector Priorities

HIV/AIDS ($430 million) and Other Infectious Diseases ($168.6 million): As HIV/AIDS and other infectious diseases continue to threaten the health of families and children in developing countries worldwide, the fight against this pandemic remains a top priority for USAID. USAID has a lead role in the implementation of the President's Emergency Plan for AIDS Relief under the policy direction of the Global AIDS Coordinator at the Department of State. In FY 2006 USAID will provide funds for the non-focus countries and the Coordinator will fully fund programs in the 15 focus countries. USAID will program an additional $34 million for HIV/AIDS to non-focus countries in FY 2006.

In FY 2006, USAID will scale up efforts in the prevention of mother to child HIV transmission, assistance to orphans and vulnerable children, the ABC approach to HIV/AIDS prevention, nutrition and HIV/AIDS, life-extending therapy, voluntary counseling and testing, improving injection safety and ensuring the safety of blood supplies, and provision of therapy for concurrent illnesses and opportunistic infections as well as palliative care. USAID's FY 2006 program will also provide global leadership in the areas of capacity building, policy environment, monitoring and evaluation systems, public and private sector partnerships; and the Global Fund to Fight AIDS, Tuberculosis and Malaria.

USAID's infectious diseases strategy will continue to focus primarily on strengthening prevention and control programs at the country level. Malaria efforts will focus on scaling up interventions to prevent and treat malaria infection in women and children in particular expanding access to insecticide treated bed nets, intermittent treatment for pregnant women and the roll-out of new combination drug therapies. Efforts to address malaria will build on and expand current programs primarily in Africa, but also include sub-regional efforts in South America and Southeast Asia and complex emergency settings. USAID will continue to support the expansion of partnerships, and will invest in malaria vaccine and drug development.

Country level expansion and strengthening of the Directly Observed Treatment Short-course (DOTS) Strategy will continue to be the focal point of USAID's tuberculosis program. In addition to working with National TB Programs to implement the various components of the DOTS Strategy, USAID will increase and strengthen the availability of human resource capacity to support DOTS implementation, continue contributing to partnerships that strengthen the capacity to address the challenges of multi-drug resistant TB, TB/HIV Co-infection, and to engage the private sector in DOTS. Partnerships that develop improved diagnostics and the development of new and more effective TB drugs and treatment regimens will be expanded.

In order to build a foundation for infectious disease programs USAID will implement key elements of the global strategy to reduce antimicrobial resistance, strengthen schools of public health and make critical investments in building epidemiological capacity and global networks to support country programs in surveillance.

Child Survival and Maternal Heath ($346.9 million) and Vulnerable Children ($10 million): USAID has identified immunization, prevention and treatment of pneumonia and diarrheal diseases, improved nutrition including vitamin A, and other micro-nutrients and breastfeeding as key child survival interventions. An analysis published in *The Lancet* in June 2003 documented that expanding these key child survival interventions could prevent almost 7 million of the world's 11 million annual infant and child deaths.

USAID will invest increased resources in FY 2006 to expanding delivery of these interventions to unreached children, including orphans and other vulnerable children, and in developing more effective interventions and approaches to help these children Funds will be devoted to new and ongoing activities, including the Child Survival Partnership, linking child survival and HIV/AIDS programming in Africa, newborn survival, community-based pneumonia treatment, full access to oral rehydration therapy, and continued investments in the Child Survival and Health Grants Program.

In the United States, a woman has a 1 in 2,500 lifetime risk of dying as a result of pregnancy and childbirth. In contrast, a woman in sub-Saharan Africa has a lifetime risk of 1 in 16. There is no health indicator with greater disparity between the developed and the developing world. A half million women die each year and 15-20 million survivors suffer serious disabilities.

USAID directs its Maternal Health resources to the most cost-effective strategies that deliver proven interventions to prevent and treat life-threatening complications and long-term disabilities as a result of pregnancy. To reduce mortality and disability, USAID will advance and support use of skilled birth attendants; transfer improved technologies and standards of care to reduce postpartum hemorrhage, the biggest maternal killer; increase our capacity to repair obstetric fistula; provide technical assistance to design effective country programs, particularly in sub-Saharan Africa; and the global IMMPACT Alliance to document the most cost-effective strategies for achieving public health impact where geography, culture, political unrest, and HIV/AIDS present special challenges to maternal health.

Planning Healthy Families ($346 million): USAID has consistently maintained an emphasis on supporting voluntary family planning programs in developing countries, helping families achieve their desired family size and improving maternal and child health. The funding requested, combined with funds from other accounts, meets the Administration's commitment to fund these programs at $425 million.

Areas of special focus include application of best practices in integrating family planning into HIV/AIDS programs, ensuring that HIV-positive women and couples have the option to use family planning; mobilizing local resources to finance contraceptive supplies; expanding the role of the private sector in providing family planning services; working with new and existing PVO partners to enhance their organizational capacity to provide services; and working toward sustainability and graduation of programs from assistance.

In the FY 2002 PART assessment, OMB determined that USAID's population program has a relevant purpose and design for achieving its objectives and gave it an impressive score of 82. USAID supports the key components of effective family planning programs: service delivery, training, performance improvement, contraceptive availability and logistics, health communication, biomedical and social science research, policy analysis and planning, and monitoring and evaluation. Significant attention is being devoted to health benefits of family planning, including birth spacing. The PART assessment provided an impetus to allocate family planning and reproductive health funding more strategically by taking into account country-level needs, measured in terms of population density, fertility and mortality rates, and unmet need for family planning. As a result, USAID reallocated over $30 million of FY 2004 Family Planning/Reproductive Health funding to higher-need countries. The FY2006 request incorporates this strategic budgeting approach.

Health Systems Reform: The Agency is increasing its efforts to bring more balance to its programming and to build adequate systems by placing greater emphasis on improving quality assurance, cutting waste and inefficiency, strengthening strategic planning and management systems, and developing host-country capacities. Further, USAID is helping health service delivery organizations manage the finances, drugs and human resources needed to deliver increasingly complicated therapies, such as those for HIV/AIDS and chronic diseases.

Partnerships: USAID recognizes the valuable role of partners and stakeholders in achieving development objectives. USAID is reaching out to new partners, including community and faith-based organizations, while at the same time continuing to fund public-private health partnerships, such as the Global Fund to Fight AIDS, TB, and Malaria, Global Alliance for Vaccines and Immunization, the Global Alliance for Improved Nutrition, and microbicide research.

Development Assistance

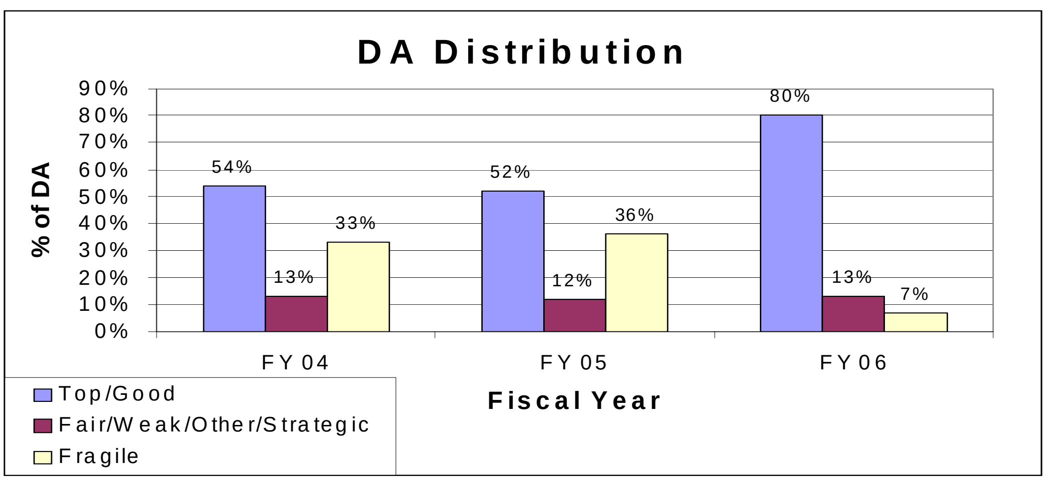
The FY 2006 request for the Development Assistance (DA) account is $1.286 billion, a decrease of $43 million from the FY 2005 request, and $78 million from the FY 2004 enacted level.

For countries that are reasonably stable but needy in developmental terms, USAID will use DA funding to achieve far-reaching, fundamental changes in institutional capacity, human capacity and economic structure so as to sustain further economic and social progress without dependence on foreign aid. In short, funds from this account will support transformational development – improving governance, promoting economic growth, and making sound investments in people. Achieving these goals will depend largely on host-country commitment and internal self-help efforts, so USAID will focus funding from this account on countries demonstrating strong performance and a commitment to policy reform.

The FY 2006 request for the DA account therefore represents a notable departure from past requests, entailing better delineation of goals and a better alignment of resources based on demonstrated performance. In developing this request, USAID likewise employed a significantly strengthened strategic budgeting process, building on previous success in this area to develop and, for the first time, consistently deploy across the Agency a corporate model for weighing and evaluating the allocation of resources among countries and regions. Although this request is slightly lower than the FY 2005 request, it is far from static – the methodology resulted in significant redistribution of funding among regions and countries. Had the Agency budgeted for the DA account under the previous methodology, the amount requested would have been $1.632 billion. However, resources for fragile states, previously funded under DA, are now funded under the TI account, as explained in greater detail in that account narrative.

Regional Programs

Most critiques of U.S. bilateral foreign aid emphasize the problem of policy incoherence – multiple and competing goals and objectives that pull in different directions. The problem of policy incoherence – particularly as it affects bilateral programming – has been echoed in many analyses of U.S. foreign aid. Yet, in the post-9/11 world, developing countries and development progress rank high among broad U.S. foreign policy priorities and effective foreign aid is likewise more important than ever. As noted above, this budget request constitutes a concrete attempt to rectify past shortcomings and rationalize allocation of DA resources more selectively on the basis of demonstrated commitment to reform and actual performances so as to maximize the impact and effectiveness of every dollar spent. Through this methodology, USAID will direct fully 80% of all bilateral programming in FY 2006 to the top performing countries wherein the Agency operates – up from only 52% in FY 2005 and 54% in FY 2004.



Africa ($502.5 million): This request will advance sustainable development, peace and security in Africa while fully supporting on-going commitments in this region.

What happens in Africa is of growing concern to the U.S., and USAID's active engagement in this region directly advances a broad range of U.S. interests. U.S. policy in Africa seeks to enhance local capacity to fight terrorism and create favorable conditions for trade while developing the foundation for sustained growth, regional stability, good governance, a healthier population and the responsible use of natural resources. Within this context, one of our most important foreign policy goals in Africa is the peace, stabilization and famine prevention in the Greater Horn of Africa.

It is through rapid, sustained economic growth that African nations will generate the resources and provide the employment opportunities required to reduce poverty rates. The USAID program in this region implements programs, including the Initiative to End Hunger, the Congo Basin Forest Partnership and the Africa Education Initiative. Through these and other initiatives, the program focuses on stimulating economic growth, particularly in the agriculture sector; enhancing the environment for private-sector trade and investment; and improving education, with a particular emphasis on basic education for girls and education programs that target Islamic populations. In addition, funding will also support the Africa Bureau Anti-Corruption Initiative. Activities implemented under this latter initiative will be particularly important in assisting host-country efforts to attain MCA eligibility.

Asia and the Near East ($247.1 million): Several countries within Asia and the Near East lie at the core of US national interests and foreign policy priorities. Conflicts pepper the region, and USAID programming in this region is crucial to address the underlying causes of violence and lay the foundations for long-term security and stability. Countries such as the Philippines and Indonesia are important allies in the war on terror. In the Philippines, for instance, USAID activities will combat separatist and terrorist movements by strengthening education and expanding economic opportunities – especially for ex-combatants. In Indonesia – the world's largest Muslim country – USAID will support major new basic education initiatives and will work hard to enhance the local government capacity to manage new responsibilities and provide better social services. In Nepal, the Agency has shifted the focus of the entire program to conflict mitigation, and in Sri Lanka, USAID continues to play a lead role in supporting the peace process and creating incentives for peace.

Throughout the region, basic education remains a major thrust of USAID efforts. Over the last two years, the Agency has expanded both the number and size of our education programs. There is a real and obvious need to continue this emphasis – to expand access to quality basic education across the region and to provide an education that leads to jobs for the booming population of children and youths.

Other priority sectors in the region include trade capacity building to create jobs and boost economic growth to alleviate poverty and enhance stability and anti-corruption activities that target the pervasive corruption that permeates the region, hindering economic growth and democratic governance. Helping potential threshold countries in this region attain MCA eligibility, including Bangladesh and Indonesia, will also be an important priority.

Latin America and the Caribbean ($258.6 million): The countries of Latin America and the Caribbean have historically shared a common destiny with the United States by virtue of geography, history, culture, demography and economics. The shared geography creates natural economic relationships throughout the Americas – the region represents more than 800 million market-oriented consumers producing more than $14 trillion in goods and services each year. Events in this region, whether driven by political changes or environmental disasters, have an immediate and direct impact on our national interests and the welfare of people in the United States. In short, prosperity in this region provides expanded opportunities for increased trade, and peace in the hemisphere is of paramount importance to our own national security.

Within this context, USAID promotes the priorities of poverty and instability. Through strategic program emphasis on democracy, human rights and increased economic prosperity and security, USAID programming in this region contributes to the achievement of broader US Government policy objectives in the region. These strategic priorities emphasize the implementation of policies to address the key constraints to development and promote long-term growth and integration within the Hemisphere.

PART results were the driving force behind the Latin America and Caribbean Bureau's (LAC) efforts to implement a set of widely-accepted Regional Performance Indicators for monitoring and reporting of results. The use of common performance indicators will facilitate the setting of ambitious annual and long-term performance targets, the measurement of results, and an annual budgeting process that is directly integrated with performance (i.e., USAID's Strategic Budgeting Model).

Central Programs

In addition to USAID's regional allocations, the FY 2006 request includes funding for central programs that support our overseas operations. This support to the field takes the form of technical assistance to the Missions, management of activities in the field from Washington, and sponsorship of courses and workshops for the field. Central programs also maintain technical leadership and research, work towards international cooperation and foster inter-agency coordination.

Economic Growth, Agriculture and Trade (EGAT) ($166.5 million): The EGAT request promotes the Agency goals of reducing poverty and promoting prosperity in developing and transition countries. This is accomplished by increasing incomes, reducing hunger, improving natural resource management and environmental quality, and equipping institutions and people with information, knowledge, and skills to build equitable and sustainable economies and societies. EGAT supports technical assistance and innovative programs in agriculture, education, trade, credit, natural resource management, energy, and gender equity. For example, USAID's support to the Consultative Group on International Agricultural Research furthers research and dissemination of best practices in agriculture, food security and poverty eradication.

Democracy, Conflict, and Humanitarian Assistance (DCHA) ($90.5 million) This request will support centrally-managed programs that save lives, alleviate suffering, support democracy, and promote opportunities for people adversely affected by poverty, conflict, natural disasters, and a breakdown of good governance. DCHA programs encourage responsible participation by all citizens in the political processes of their countries, assist those countries in improving governance, preventing and mitigating conflict, and helping strengthen non-governmental organizations and civil society. For example, DCHA's Private Voluntary Cooperation program helps to strengthen the capacity of U.S. private voluntary organizations (PVOs) and their local non-governmental partners to ensure that these organizations are strong, effective, and capable of delivering critical services. USAID is also asking for increased resources for the Conflict Management and Mitigation (CMM) program to address the causes and consequences of violent conflict and support post-crisis stabilization.

Global Development Alliance (GDA) ($10 million): Development Assistance funds under the GDA pillar total $10 million in FY 2006 and will be used to accomplish the goal of mainstreaming public-private alliance building as a primary business model for USAID. The GDA Secretariat mandate includes effecting an organizational and a cultural change in the way the Agency operates - from high-level management to program officers and technical experts in the field and in USAID/Washington. The GDA business model utilizes USAID's knowledge and resources to leverage resources from the private and non-profit sectors to deepen and expand the impact of USAID's programs. In FY 2002 and FY 2003 USAID funded over 200 alliances with an estimated $500 million, leveraging resources valued over $2 billion from alliance partners. This 1:4 ratio of leveraged resources illustrates the demand for and success of public-private alliances in implementing development assistance programs.

Other Central Programs ($10.4 million): Of this amount, $8.2 million will support essential policy development, evaluation, knowledge management, and strategic budgeting; and $2.2 million will fund communication, outreach and public education programs.

Sector Priorities

Economic Growth, Agriculture, and Trade Pillar

Development Assistance funds under the economic growth sector focuses on building stronger economies that are soundly-governed, broadly-based, and integrated into the global trading system. The economic growth pillar programs also encompass environment, energy, gender, urban development, and education activities. The request will support initiatives in trade and investment, agriculture, environment (e.g., water, energy, biodiversity, forestry, global climate change, and illegal logging), and education.

Trade and Investment - The United States renewed its commitment to promoting economic growth at the World Trade Organization Ministerial Meeting in Doha, and at the U.N. Financing for Development Conference in Monterrey where trade, investment, and governance were identified as keys to economic growth. The FY 2006 request supports this commitment and promotes stronger linkages between trade and development by increasing the capacity of developing countries to participate in and benefit from trade and investment. Specific initiatives include extensive help in negotiating the Central American Free Trade Agreement (CAFTA), the Africa TRADE Initiative, and the Digital Freedom Initiative.

Agriculture - USAID's agricultural programs are focusing on agricultural marketing in order to get local products to the marketplace. These programs mobilize science and technology to reduce poverty and hunger, develop global and local trade opportunities for farmers and rural industries, increase knowledge at the local level, and promote sustainable agriculture and sound environmental management. In addition, university-led partnerships are helping to apply U.S. scientific and training expertise to food and agricultural challenges in developing and transition countries, and alliances with the coffee industry support continued development of the sector. The Initiative to End Hunger in Africa (IEHA) continues to promote new agricultural technologies and will expand regional agricultural trade programs and an Africa-wide knowledge management system. USAID has helped Afghanistan agricultural production recover to pre-war levels and will continue to work with Afghan farmers to increase yields further.

Environment - Environmental programs will focus on improving management of natural resources by investing in programs that provide: conservation of biological diversity; renewable and clean energy; access to clean water and sanitation; watershed management; and environmentally sound urbanization. These activities are key components of sustainable economic growth. The Water for the Poor Initiative will improve sustainable management of water resources and accelerate the international efforts to halve by 2015 the proportion of people who are unable to reach or afford safe drinking water. The Agency will work with governmental and non-governmental partners to improve access to clean water and sanitation services, improve watershed management, and increase the productivity of water. In addition, USAID is a member of a public-private alliance to improve access to water in rural West Africa. Other alliances are also in process in Iraq and the Middle East.

USAID's Global Climate Change program promotes economic growth that minimizes the growth in greenhouse gas emissions, thereby helping to reduce the planet's vulnerability to climate change. The Initiative against Illegal Logging is the most comprehensive strategy yet undertaken by any nation to address this critical challenge and reinforces the U.S. leadership role in the protection of the world's environment. Through this initiative, the Sustainable Forest Products Alliance supports efforts to reduce the flow of illegally logged timber into world markets. The initiative focuses on three critical regions – the Congo Basin, the Amazon Basin and Central America, and South and Southeast Asia.

As a result of the PART assessment conducted by OMB in FY 2002, USAID was instructed to update the goals and performance measures for the Global Climate Change (GCC) program to improve measurability where possible and to better reflect US government priorities. To comply with OMB's recommendation, the GCC program is in the process of developing a new strategy to update its goals, and is improving measurability by revising results indicators and developing methodologies to measure carbon impacts of its land use activities. USAID has ensured that the GCC program reflects the Administration's priorities by adopting a new strategic objective, "Environmental and science policies mobilized to address global development challenges," supporting bilateral climate change discussions with the State Department, participating on the negotiating team in international climate change negotiations, and supporting specific initiatives related to climate change.

Education – Education, especially basic education, is an important long-term investment in sustaining democracies, improving health, increasing per capita income and conserving the environment. USAID's education programs help encourage countries to improve their educational policies and institutions and to adopt improved educational practices in the classroom. Program priorities in Africa, the Americas, and the Caribbean will improve basic education and teacher training. In Afghanistan and Pakistan the emphasis will be on expanding opportunities for girls as well as boys who have had their education disrupted by war. All USAID's programs strongly emphasize the need to ensure equitable access for girls, especially in Africa and the Near East.   With the US recently rejoining UNESCO, USAID will work to improve the analytical quality of programs and increase public-private partnerships in education.

Democracy, Conflict, and Humanitarian Assistance Pillar

Development Assistance funds under the DCHA pillar will focus on promoting good governance and stability as necessary pre-conditions for sustaining or preserving development investments in all sectors. DA resources will strengthen democratic systems of governance by supporting elections, encouraging credible and competitive political processes, encourage vibrant and politically active civil societies, engender respect for the rule of law, promote security, and foster human rights. This request is based on the premise that democratic governments are more likely to observe international laws, stand firm with the U.S. in the War on Terror, and pursue policies to reduce poverty, hunger, and suffering. The request maintains a strong focus on regional stability, humanitarian response, democracy, and human rights.

High levels of corruption are perhaps the single greatest factor that impede or retard the growth and progress of many developing countries. Furthermore, many countries failed to achieve MCA eligibility largely as a result of the corruption rampant in their societies, governments and institutions. To address this problem, USAID will seek additional funding in FY 2006 to support anti-corruption activities, particularly in those countries that might otherwise have achieved MCA eligibility or threshold status.

Insofar as civil conflicts and deadly violence have blunted or reversed economic growth, destroyed investments, and slashed living standards in many countries, DA resources under this pillar will also focus on addressing the causes and consequences of violent conflict. The Agency's work in the area of democracy and governance will complement the conflict prevention and mitigation programming in that the strength and health of political, economic, and social institutions are a critical factor in determining whether conflict will emerge.

International Disaster and Famine Assistance

The FY 2006 request for International Disaster and Famine Assistance (IDFA) is $422 million. In the absence of any supplemental appropriations, this level would be an increase of $36 million over the FY 2005 request. The increase will allow USAID to meet the minimum needs of existing complex emergencies and to respond appropriately to natural disasters. The request includes $272 million for disaster relief, rehabilitation, and reconstruction assistance. The request maintains USAID's commitment to Sudan by providing $100 million to support war recovery efforts in Darfur and to stabilize areas of heavy population displacement and high vulnerability in southern Sudan. In addition, the request includes $50 million to support the famine initiative. These funds will be used to support opportunities where there is the greatest potential to address the root causes of famine and food insecurity. In keeping with USAID policy, humanitarian relief will be provided without condition to all countries based on urgent need.

Transition Initiatives

USAID is requesting $412.6 million to support critical, flexible and fast interventions in priority fragile states, including short-term stabilization, reform and reconstruction efforts in the aftermath of conflict. This is an increase of $349.8 million from FY 2005. Of the requested amount, $68 million will support global transition programs managed by the Office of Transition Initiatives (OTI) and $344.6 million will be managed by field missions for four key fragile states for which currently projected resource levels are shown in parentheses: Afghanistan ($175 million); Sudan ($70 million), Haiti ($63 million) and Ethiopia ($36.5 million), which in previous years would have been requested under the DA account.

Rather than create a new account, USAID determined that minor adjustments to, and expansion of, the existing Transition Initiatives (TI) account would accomplish this goal. Therefore, USAID requests all funding previously budgeted under the DA account for these four fragile states in crisis to be shifted to the TI account. TI funding for these states would be managed by the field missions, similar to DA & CSH resources that are managed by other missions. Core funding for OTI would also be derived from the TI account and would continue to be managed by OTI.

Analyzing the FY 2006 Budget according to USAID's new "Aid in the 21st century" criteria clarified the need to refocus the DA account to adequately incorporate performance budgeting. At the same time directing flexible resources to address the needs of key fragile states emerged. This realignment of accounts is consistent with not only the aid effectiveness strategy but also the central premise of USAID's new fragile states strategy that responding to countries that are generally weak with poor governance requires new ways of conceptualizing and delivering assistance and evaluating its impact. To do so, the strategy calls for (1) better analysis of the sources of fragility and pathways to failure, (2) early action when fragile states show vulnerability and (3) a fully integrated yet flexible response when countries are coping with periods of crisis, such as political transitions or the early stages of post-conflict recovery. Essential to this approach is the flexibility to develop and/or adjust programs in response to rapidly-changing circumstances. Flexibility includes: short planning horizons, discretion within overall budget level and particular accounts, and a more agile acquisition and assistance process and instruments.

<u>Office of Transition Initiatives (OTI)</u>

To support OTI interventions in priority conflict-prone countries, $68 million is requested, an increase of $5.2 million over the FY 2005 request. These funds will support programs in countries or situations where the nature of governance is shifting from authoritarian rule to more-open societies. In light of OTI's efforts to implement flexible, effective and short-term programs, FY 2006 funding may support programs in countries that have not yet been identified.

OTI's programs support local partners' efforts to transform the underlying situation in countries and may play a key role in avoiding future large expenditures for military and humanitarian interventions. Of the increase, $5 million is critical to fund the Abuse Prevention and Protection Team's (APPT) capacity to respond to the increasing demand for technical assistance in disaster situations and $200,000 will support increased OTI engagement in community reintegration programs, such as those currently in Liberia and Democratic Republic of the Congo.

Support for Key Fragile States

Afghanistan, Sudan, Haiti and Ethiopia represent the four states that (1) are fragile and are currently experiencing a period of particular sensitivity as they recover from conflict or address deep governance weaknesses, yet (2) receive a share of the DA budget that is most disproportionate to what performance allocation criteria would suggest. The fundamental problem in these countries continues to be weak governance that undermines efforts to prevent famine, manage internal conflicts or deliver basic services to its citizens. Therefore, the primary objective is to increase stability and improve performance through reform and capacity development. It is more appropriate for these countries to fund assistance from an expanded TI account rather than compromising the performance-based principles of the DA account.

This delineation reflects the nature of assistance provided by these two accounts. While DA is critical for long-term transformational development of well-performing countries, it does not have enough flexibility to meet the immediate, large resource needs in areas such as conflict mitigation or temporary employment of countries in crisis. Over the past several years, the flexible portion of DA funds has been disproportionately directed towards these four fragile states, reducing resources available for good performing countries. The requested $344.6 million for these states exceeds, for example, funding levels for the entire DA program for DCHA (~$90 million) *and* EGAT ($165 million) *or* the entire LAC Bureau (~$260 million) *or* the entire ANE Bureau (~$250 million). It amounts to almost two-thirds of the entire amount devoted to bilateral programming (~$550 million) *and* exceeds the entire amount devoted to regional programming (~$ 335 million). Flexible funding through the TI account is crucial to the immediate needs of these four key fragile states.

- *Afghanistan:* In a region rife with conflict and its own most recent history of 23 years of violence, the development challenge for Afghanistan is to rebuild its social fabric and infrastructure and chart a successful transition to democratic self-rule. The transition from instability and conflict to economic and political governance and long-term growth in Afghanistan will not be easy, linear, or achieved in the short-term. As a fragile state, Afghanistan remains near the bottom of every socio-economic indicator measuring human and economic progress. As one of the highest foreign policy priorities, the U.S. is taking an integrated approach, using all the tools, resource pools and flexibility to meet changing demands and challenges to support a successful transition. USAID's new Transition Initiative provides the necessary resource flexibility and programmatic integration using all the foreign policy and assistance tools to support Afghanistan's efforts for a political and economic transition to self rule.

- *Ethiopia*: During the last 30 years, the cycle of famine in Ethiopia has repeated itself again and again, necessitating substantial, and cyclical emergency food aid. Over time, the country is gradually losing its resiliency and capacity for growth. To address this situation, USAID has developed a strategy to manage the transition from a largely emergency response program to one that proactively builds capacity to prevent famine by investing in growth and resiliency. The success of this transition depends on increasing the capacity of government, the private sector, nongovernmental organizations, communities and households to generate economic growth and to build a foundation for permanently reducing famine vulnerability, hunger and poverty. The balance of resources, however, must change, with fewer resources delivered in the form of food aid and more in the form of technical assistance, local infrastructure and training. Food aid will continue to be an important component of asset building operations (food for work, food for relief) but the flexibility of monetary resources, through the expanded transition initiative, in the asset building programs will reduce program costs and, at the same time, support the growth of effective and sustainable markets and provide the chronically food insecure with more options to invest in assets that can help them earn income.

- *Sudan*: With the signing of the framework peace protocols between the Sudanese People's Liberation Movement and the Government of Sudan in May of 2004, the end of the 20 year-long civil war in Sudan is now in sight. However, the transition from instability and conflict to economic growth and democratic political governance will be extremely difficult and cannot be achieved in the short term. Sudan also faces enormous development challenges. The lack of basic physical infrastructure and institutional capacity, particularly in the south, impede economic and social development. Extremely high rates of illiteracy, limited access to basic education, high rates of child mortality and infectious diseases, an emerging HIV/AIDS threat, lack of economic opportunities, poor quality agricultural production and inaccessible markets are legacies from the years of conflict and developmental neglect. The outbreak of conflict and the ensuing humanitarian crisis in the Darfur region further complicates this transition process and will necessitate significant assistance to restore livelihoods and facilitate recovery and stabilization of the region once the conflict is brought under control. Sudan is currently the Administration's highest priority in Africa. The United States is bringing to bear as broad an array of tools and resources as possible to address the tremendous challenges facing the country. USAID's newly expanded transition initiative provides the necessary resource flexibility and program integration required to help the country towards economic and political stability and to help its peoples, especially those in the neglected south, west and east, enhance their livelihoods and attain self-sufficiency.

- *Haiti:* Profound degradation of Haiti's social, economic, and political conditions exacerbated by flawed elections in 2000, culminated in widespread instability and the departure of President Aristide in February 2004. Confronted with extensive damage to state infrastructure and the disruption of essential services, the newly-formed Interim Government of the poorest country in the Western Hemisphere is virtually penniless, with severely limited revenue generation capacity. USAID was the first donor to provide critical assistance for restoring essential services such as electricity and power supply, potable water and sanitation, health and food delivery systems to Haiti's most vulnerable and at risk populations. Although Haiti is beginning to stabilize, the devastation of Haitian society and economy during the protracted political crisis requires that significant donor support be provided directly to the Interim Government during its 28 months of tenure. In addition to expanded assistance through NGO's, this transition support will help to restore and sustain a climate of peace and security, revitalize Haiti's tattered economy, and improve conditions for democratic processes to take place, including fair and free elections, in FY 2006.

The magnitude of the funding level for these four key fragile states both distorts performance budgeting within the DA account and dwarfs other DA-funded programs. Moreover, fragile states resources require more flexibility than DA can currently provide. Therefore, in its efforts to meet changing development needs and increase aid effectiveness, USAID believes that by budgeting for these four states in the more flexible, short-term TI account, DA funds can be more productively applied to long-term efforts and allocated to good performing countries truly committed to democracy, economic freedom, and eventual graduation from development assistance. At the same time, TI will provide the resources coupled with the authorities that provide flexibility to meet the countries' more pressing needs. Indeed, USAID expects to continue this process of realigning funding sources over subsequent budget cycles, relying increasing on the TI account to respond to fragile states – particularly those in crisis - and the DA account to support countries engaged in transformational development.

Credit Programs

<u>Transfer Authority</u>

USAID is requesting $21 million in Development Credit Authority (DCA) transfer authority for FY 2006 to provide loan guarantees in every region and in every economic sector targeted by USAID. This request is at the same level as the FY 2005 request. DCA is not a separate program requiring additional appropriations; rather, it is an alternative use of existing appropriations. DCA augments grant assistance by mobilizing private capital in developing countries for sustainable development projects, thereby supporting the capacity of host countries to finance their own development.

In FY 2006, DCA will assist USAID Missions in supporting activities in agribusiness lending, bond financing, micro-small and medium enterprise (MSME) development, and clean energy and clean water initiatives.

USAID anticipates that demand for credit resources among the geographic regions in FY 2006 may be as follows: AFR – $5 million; ANE – $5 million; E&E – $6 million; and LAC – $5 million.

So far in FY 2004, 30 activities approved under DCA will leverage subsidy totaling $10.03 million to guarantee loans and loan portfolios totaling $285 million.

Activities funded through DCA add value to USAID's overall efforts by creating competitive and efficient markets, improving policies and increasing transparency within financial institutions, increasing employment, and demonstrating to financial institutions in developing countries that mobilizing local private capital to fund activities in their own countries can be a profitable, worthy venture.

Administrative Expenses

For credit program administrative expenses, USAID is requesting $9 million for FY 2006, an increase of $1 million over the FY 2005 request.

In accordance with the Federal Credit Reform Act of 1990, this request funds the total cost of development, implementation, and financial management of the DCA program, as well as the continued administration of the Agency's legacy credit portfolios which amount to more than $22 billion.

This request funds a total of 26 full-time direct-hire staff to provide financial, accounting, legal, and management support for the DCA program, as well as for loans and guarantees issued under the Agency's legacy credit programs.

This appropriation request also funds training to ensure that the DCA support staff maintain and develop their skills, and to ensure that mission staff are familiar with how and when to use credit as a tool for development finance.

In addition to funding increased loan servicing contract costs, the $1 million increase requested for FY 2006 will help DCA support MCC eligible and threshold countries through the expansion of bank training activities and the enhancement of training curricula to address country and program specific needs as they relate to private sector credit underwriting practices, including risk and loan portfolio management.

Operating Expenses

The FY 2006 request for operating expenses is $855.8 million, including $804.5 million for the Operating Expenses (OE) account, combined with $51.3 million from local currency trust funds and other funding sources. The request represents a $181 million increase in OE from the FY 2005 request. This will cover the Agency's salaries and benefits, on-going support of current information technology (IT) systems, security, training, and other administrative costs associated with programs worldwide. The funds will support management priorities to strengthen and right-size the workforce and complete the Development Readiness Initiative (DRI), modernize business systems and support State-USAID joint systems integration, improve program oversight and accountability, and further regionalize our overseas operations. Given the crucial role OE plays in achieving our joint State-USAID mission, adequate funding for OE is the Agency's highest priority.

The OE account has a critical role in meeting the State-USAID joint mission to create a more secure, democratic, and prosperous world by supporting the strategic goal of ensuring a high quality workforce supported by modern and secure infrastructure and operational capabilities. Adequate OE resources are particularly important as the Agency strives to address foreign policy and development challenges in increasingly complex settings. The FY 2006 OE request will enable USAID to continue management improvements to strengthen programs and support systems, as it faces the challenges of high retirement rates among our most experienced officers, significant costs to implement major business transformation initiatives, and increases in the strategic importance and funding of key countries and programs.

USAID has already made significant progress in improving agency management and earned a respectable score on the PART assessment of USAID's administrative programs. Specific management goals are defined in the Joint Performance Plan (JPP) and the Agency is increasingly holding itself accountable through quantitative performance measures and targets for each of the major management units. The improved measurement framework is acknowledged in our PART rating and has set the stage for raising the score as results are demonstrated.

This OE request will cover core management requirements and the marginal costs to manage a $9.8 billion budget, including State's ESF, AEEB and FSA accounts co-managed with the Department of State. However, if the Agency subsequently receives additional program funds for implementation, on behalf of, e.g., the Millennium Challenge Corporation (MCC) or State's Global AIDS Coordinator (S/GAC), USAID will require additional operating resources. Based on a cost analysis, USAID has developed what it considers to be a fair rate for the incremental administrative costs to missions of undertaking additional unplanned programs. If program transfers are agreed to, the Agency would request a share of such transfers for overseas administrative costs. USAID has already reached agreement on a rate of 7% in FY 2004 with MCC for the MCA threshold country programs, S/GAC for PEPFAR program implementation, and State/NEA for MEPI program management. We are working with State to establish a policy and set a standard rate for all other programs. Due to the complexity of allocating Washington costs overseas, the administrative cost rate would exclude Washington costs.

Direct costs of the Agency's overseas presence, including direct-hire salaries and benefits, represent over 50% of the OE costs. The Agency's overseas presence is indispensable to the effective management of our programs, delivery of U.S. foreign assistance, improved situational awareness, and increased programmatic and financial oversight. It is the core of development readiness: strengthening the U.S. Government's knowledge base and providing alternative and valuable perspectives to U.S. policymakers.

Uses of Operating Expenses

The OE budget consists of overseas operations, including field mission support and USDH salaries and benefits; Washington operations, including bureau/office allocations and USDH salaries and benefits; and central support, including development readiness; information technology; Washington rent, utilities and other support costs; staff training and personnel support; security; and facility relocations.

Overseas Operations ($441.8 million): Slightly over 50% of the OE budget funds the Agency's overseas presence. This is comprised of USDH salaries and benefits for Foreign Service Officers (FSO) overseas, overseas locality pay, and mission operations. Overseas USDH salaries and benefits ($109.9 million) includes salaries and the Agency share of benefits, such as retirement, thrift savings plan, social security, and health and life insurance for approximately 700 FSOs serving overseas. The request for overseas locality pay ($9.1 million) for FSOs at grades FS-01 and below would redress the imbalance caused by the senior pay reform mandated by Congress that eliminated the overseas pay gap for senior employees. It also is commensurate with benefits budgeted by the Department of State.

Over 70% of the overseas operations request supports field missions ($322.8 million). This represents a $85 million increase to improve program oversight and accountability, fund Iraq ($51 million) and Afghanistan, and support increases for security, FSN salaries, and previously deferred equipment and training.

- Salaries and benefits for Foreign Service National direct hire and personal service contractors (PSCs) and USPSCs total $127.1 million, or 40% of total mission funding.

- Residential and office rents, utilities, security guard costs, and communications total $60.2 million, or 19% of total mission funding. These costs are largely non-discretionary.

- Intergovernmental payments total for $31.8 million or 10% of mission expenses, of which the majority is for mandatory ICASS payments.

- Operational travel and training, which includes essential travel to visit development sites, work with host country officials, other operational travel, including travel to respond to disasters, and the costs of tuition and travel for training not sponsored by Washington, total $23.8 million.

- Supplies, materials, and equipment, which includes the cost of replacing office and residential equipment, official vehicles, IT hardware and software, general office and residential supplies and materials, and some security-related equipment, total $23.1 million.

- Mandatory travel and transportation, which includes travel and transportation expenses for post assignment, home leave, and rest & recuperation, and the shipment of furniture and equipment, total $18.3 million.

- Contractual support for administrative services totals $27.0 million.

- Operation and maintenance of facilities and equipment total $10.0 million.

- Miscellaneous items, including medical costs, building renovations and printing, total $1.5 million.

Washington Operations ($169.7 million): Washington operations include USDH salaries and benefits for Washington staff and travel, administrative supplies, and contract support for Washington offices and bureaus. USDH salaries and benefits ($150.4 million) include salaries and the Agency share of benefits, such as retirement, thrift savings plan, social security, and health and life insurance, for approximately 1,300 General Service and Foreign Service employees.

The request for Washington bureaus/offices ($19.3 million) covers travel and advisory and assistance services. Travel includes essential travel to visit missions and development sites, work with host country officials, participate in training, and other operational travel. Advisory and assistance services includes manpower contracts and advisory services to support essential functions, such as preparation of the Agency's financial statements, voucher payment processing, and financial analysis. The request includes increased funding for the Office of Human Resources to execute the Agency's Human Capital Strategy, a key component of USAID's Human Capital performance under the President's Management Agenda, and other activities that support the PMA (see "The President's Management Agenda" section for more information).

Central Support ($244.3 million): The request for central support includes development readiness; information technology; Washington rent, utilities and other support costs; staff training and personnel support; security; facility relocations; and other agency costs. Expansion of the staff training and personnel support budget will directly support implementation of the Agency's Human Capital Strategy and the Human Capital segment of the President's Management Agenda.

- Development Readiness Initiative ($49.6 million)

  The request will allow us to complete the USAID Development Readiness Initiative to strengthen the workforce and rebuild the Agency's diplomacy and development capacity. This effort will help USAID meet OPM's mandate to get the "right people in the right jobs with the right skills at the right time" and conclude the three-year objective of increasing the direct-hire workforce by 300, a 15% increase from FY 2003. It is also a critical component of the Human Capital Strategy and key to achieving and maintaining a "green" status rating for Human Capital under the President's Management Agenda.

  The request represents an increase of $31.6 million from the FY 2005 request level for 150 new positions, of which 50 are Civil Service positions in Washington. It also includes the annualized costs of 150 DRI staff to be hired in FYs 2004 and 2005, of which 50 are USPSCs who will have converted to program-funded direct-hires and must be OE funded in FY 2006.

  In addition to increasing overall numbers, DRI will allow the Agency to implement Agency-wide workforce planning; provide an adequate float for training (including language) and home leave; establish a surge capacity; fill mission critical positions overseas; respond to increasing requests for details to the Millennium Challenge Corporation, State's Office of the Global AIDS Coordinator and Office of Reconstruction and Stabilization; and increase our flexibility to upgrade our skills in areas critical to the overseas missions based on our workforce analysis.

- Information Technology ($84.6 million)

  The request will support the infrastructure modernization necessary to achieve the State-USAID joint goals for information technology management and IT systems security objectives of e-gov under the President's Management Agenda. To modernize its systems, eliminate critical security vulnerabilities, and fully participate in joint systems integration efforts, USAID must upgrade its IT equipment. Due to prior budget constraints, the Agency's infrastructure is outdated, per industry standards, putting planned systems at risk. In an era when industry replaces equipment every four to five years, 97% of USAID switches are over 10 years old. The request includes a $21.4 million increase to upgrade the Agency's dated IT equipment.

  In addition to IT upgrades, the request will fund the on-going support of IT systems, infrastructure, and architecture, which is critical in helping USAID staff fulfill the Agency's mission. The request funds managing, operating, and maintaining the suite of enterprise-wide, legacy, and database systems; supporting the worldwide telecommunications operations and centralized network and server platforms in Washington; costs associated with configuration, contract, and project management; and other areas.

- Washington Rent, Utilities, and Support Costs ($52.5 million)

  The request for office rent, utilities, and guard services for the Ronald Reagan Building and warehouse space in the metropolitan area is $42 million, 79% of this budget category. The remainder also is relatively fixed, required for building and equipment maintenance and operations, postal fees, APO, bulk supplies, transit subsidies, health and safety, and other general support costs for headquarters personnel.

- Staff Training and Personnel Support ($20.5 million)

  With a sizeable increased investment in training and personnel support, the request will allow USAID to better utilize human capital. USAID will train staff, particularly in program and project management, leadership and supervision, and technical areas; implement the Human Capital Strategy to establish a more flexible and high-performing workforce to meet development challenges and deliver assistance; and regionalize and rightsize under the Business Model review to realize savings and increase efficiency.

- Security ($12.7 million)

  The request for security will continue to protect USAID employees and facilities against global terrorism and national security information against espionage. It covers physical security measures, such as building upgrades, emergency communications systems, and armored vehicles; personnel security, such as background investigations and security clearances; and information security.

- Field Mission Facility Relocations ($5.5 million)

  The request for facility relocations will provide for office relocation at priority security threat posts where USAID missions are not collocated with the Embassy. These funds are separate from the CIF request, which is exclusively for new building construction on Embassy compounds.

- Other Agency Costs ($18.9 million)

  The request for other agency costs covers primarily mandatory costs, the largest of which are payments to the Department of State for administrative support and Dispatch Agent fees and Department of Labor for employee medical and compensation claims relating to job-related injury or death. This category also includes travel and related costs for retiring Foreign Service Officers, costs associated with the Foreign Service panels, and funding for medical, property, and tort claims.

Capital Investment Fund

The Agency is requesting $95.4 million for its Capital Investment Fund (CIF) for FY 2006 to finance construction of USAID buildings overseas in conjunction with the Department of State and to fund major information technology projects.

The CIF request includes $55.8 million to fund the second year of the Capital Security Cost Sharing Program to support the construction of USAID facilities on New Embassy Compounds, compared to a requirement of more than $175 million if USAID were to separately fund buildings. Missions include Astana, Bamako, Bridgetown, Freetown, Kingston, Jerusalem annex, Tashkent, Tblisi, and Yaounde. This represents a $27.1 million increase from FY 2005.

The CIF request also includes $39.6 million for IT systems modernization to establish joint financial management and procurement systems, establish the scalable technology architecture foundation for developing an Agency-wide Executive Information System, continue infrastructure collaboration and consolidation, participate in government-wide e-gov initiatives, and strengthen management of the Agency's IT portfolio. These investments are a critical component of the Agency's efforts to meet the objectives under the President's Management Agenda for e-gov, financial performance, and budget and performance integration. Investments in the financial management system are also necessary to meet the PART requirement of strong financial management practices.

Inspector General

The Agency requests $43.1 million to fund the activities of the USAID Office of Inspector General (OIG). The request will provide OIG salaries and benefits for staff and support critical audit and investigative coverage. The request includes $1.1 million to relocate our Europe & Eurasia Regional Inspector General office (RIG) located in Budapest, Hungary to Frankfurt, Germany and $2.5 million to fund the cost of our newly established RIG in Baghdad.

P.L. 480

The FY 2006 request for P.L. 480 Title II food aid is $1.315 billion, an increase of $130 million over the FY 2005 request. The requested increase is needed to cover escalating costs of food commodities and U.S. flag ocean transportation associated with on-going global emergency food needs. Commodity prices and transportation costs are unpredictable factors when implementing Title II activities, which are based on need and measured in metric tons of food. Food commodity prices and global U.S. flag ocean transportation rates have escalated to their highest levels in recent history. Applying the measure of average cost per metric ton of food aid delivered, program costs have increased 39% from 2001 to 2003 ($390/MT to $542/MT).

U.S. Department of Agriculture (USDA) commodity experts and senior leaders confirmed at a recent Food Aid Policy Council (FAPC) meeting that USDA and USAID commodity prices for soybean oil, corn, wheat, and rice will be at their highest levels since the trade embargo of the 1970s. Early projections for FY 2004 indicate the costs for food aid program commodity and delivery costs will be at least $130 million more than projected. The P.L. 480 Title II emergency program level is estimated at $830 million for FY 2004, compared to $1,400 million in FY 2003. This is a substantially reduced level considering that many of the same emergency situations still exist while others are evolving.

In addition, the threat of famine conditions exist presently in western Sudan and eastern Chad as a result of the Darfur crisis and the remnants of severe emergencies in Ethiopia, Eritrea and southern Africa will require a sustained commitment to ward off a further deterioration of the food security situation. Food requirements in complex crises in Angola, Uganda, southern Sudan, Zimbabwe and Afghanistan remain critical humanitarian needs. New climatic shocks in Northern Kenya, Tanzania and Somalia together with the previously assessed and escalating worldwide requirements will place enormous stress on maximizing U.S. commodity purchases to meet envisaged needs. Ethiopia, Sudan and southern Africa alone receive 50% of USAID's emergency budget. The escalation in commodity and freight costs has diminished the purchasing power to the extent that the U.S. contribution to global emergency food needs is anticipated to be lower compared with historical contributions.

The effectiveness of USAID's P.L. 480 Title II food aid program was formally assessed using OMB's Program Assessment Rating Tool (PART) in FY 2002, which contributed to the FY 2004 budget process. On the basis of this assessment, OMB concluded that:

- The impact of development food aid, which consists of direct feeding programs as well as programs to improve the health, well-being and farming practices of needy populations, is harder to measure than emergency food aid.
- Emergency food aid, which provides food to prevent or reduce discrete and protracted famines, has demonstrated adequate progress.

- The development program has made progress in implementing results-oriented programs and has met some of its objectives but needs to do more.
- The program would be more cost-effective if several congressional mandates were eliminated. For example, cargo preference requirements compel the use of U.S. flagged vessels which increases delivery cost and time. Requirements in the law that establish minimum amounts of food to be used for development food aid reduce flexibility to direct food to where it may be most needed, particularly for emergencies. Recent legislative changes such as preventing the U.S. from setting and recouping a minimum cost in those cases where food aid is sold for cash (called ''monetization'') make the program less cost effective.
- While the program has developed extensive performance indicators, certain measures need to be improved, particularly for development food aid. The program is currently revising its strategic plan and reviewing its outcome measures.
- Food aid needs to be more and better integrated with other USAID resources for central programs and USAID missions to ensure better results.

OMB recommended that USAID 1) Implement changes to improve efficiency and continue others (such as for monetization); 2) Address flexibility by implementing better contingency planning for emergency needs that arise late in a fiscal year; and 3) Improve performance measures that incorporate the implementation of programs by USAID's non-governmental partners, such as private voluntary organizations (PVOs). The Agency is in the process of completing a new strategy which addresses OMB's recommendation to develop improved annual performance measures. The Agency FY 2004 Annual Report Guidance included directions for integrating Title II food aid with other USAID programs.