USAID

FROM THE AMERICAN PEOPLE

On the Front Lines

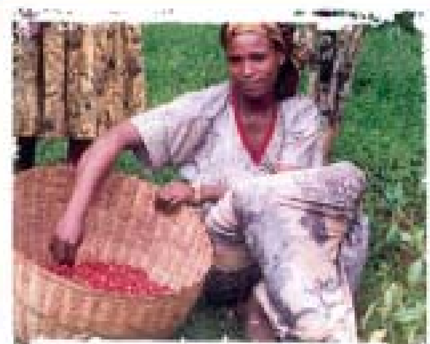
Iraq

Afghanistan

Sudan

Russia

Liberia



Ethiopia

Caribbean

Haiti

Indonesia

Performance and Accountability Report

Fiscal Year 2004

www.usaid.gov

The Fiscal Year 2004 Performance and Accountability Report

is published by the

U.S. Agency for International Development

Bureau for Policy and Program Coordination

Office of Strategic and Performance Planning (PPC/SPP)

Bureau for Management, Office of the Chief Financial Officer (M/CFO)

An electronic version is available on the World Wide Web at:

www.usaid.gov/policy/par04/

U.S. Agency for International Development Document Identification Number: PD-ACA-700

For additional copies, please call USAID at (202) 712-0285 or (202) 712-1980

e-mail: usaidpar@usaid.gov

Published in Washington, DC

November 15, 2004

USAID at a Glance

Authorities: Foreign Assistance Act of 1961. Statutory Agency

Budget $14.2 Billion in FY 2004 appropriations

Workforce: 2,227 U.S. Direct Hire (USDH); Total 8,117 (Including Foreign Service Nationals and Personal Services Contractors)*

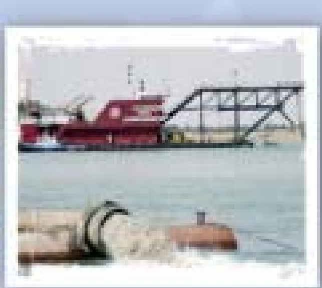
Location: Four Regions - Africa; Asia and Near East; Latin America & Caribbean; and Europe & Eurasia

Strategic Goal Areas: Regional Stability; Counterterrorism; International Crime and Drugs; Democracy and Human Rights; Economic Prosperity and Security; Social and Environmental Issues; Humanitarian Response; and Management and Organizational Excellence.

USAID
FROM THE AMERICAN PEOPLE

PERFORMANCE AND ACCOUNTABILITY REPORT

FISCAL YEAR 2004









On the Front Lines

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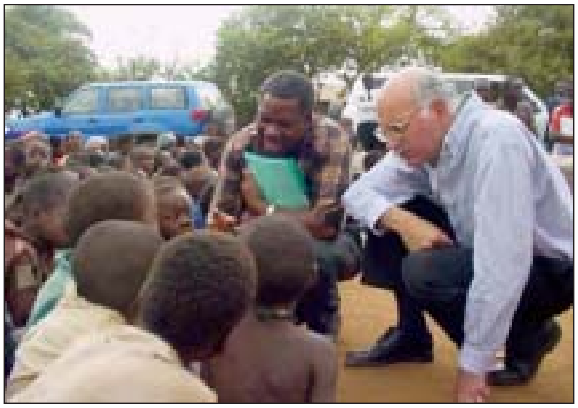
A Message from the USAID Administrator

"Iraq. Afghanistan. Sudan. Liberia. Haiti. These were the major news stories this year, and USAID was right there... on the front lines."



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

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

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

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

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

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

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

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

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

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

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

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

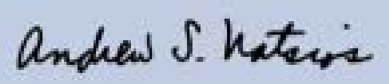
USAID's Business Transformation Executive Committee (BTEC) continues to modernize business systems and automate procurement and acquisition within the Agency. We have installed the first unified financial management system in Agency history, and have completed the first round of system deployments to the field. We have also launched the implementation phase of the Procurement System Improvement Project (PSIP), which brings to USAID a single, Agency-wide application to handle acquisition, assistance, and financial accounting needs. For the second year in a row, independent auditors have given our financial statements an unqualified ("clean") opinion. We have made every effort to verify the accuracy and ensure the completeness of the financial and performance data presented in this report. In the few instances where information has not been provided, we give specific reasons why.

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

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

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

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



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

November 15, 2004

A Message from the Chief Financial Officer

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

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

- As part of USAID's commitment to implement a unified, integrated financial management system that substantially complies with system requirements under the Federal Financial Management Improvement Act (FFMIA), we successfully implemented Phoenix, the new financial management system, in five overseas missions – Egypt, Ghana, Peru, Colombia, and Nigeria – on August 10, 2004. This project has stayed within budget and has rolled out with "few hitches." The Agency plans to deploy Phoenix to other field missions throughout the world by the end of April, 2006.

- USAID successfully assigned all strategic objectives to the performance goals set forth in the new joint State-USAID Strategic Plan. The Agency's performance reporting platform for FY 2004, as reflected in this report, uses the new planning framework and goal structure. FY 2003 targets developed within the previous framework have been reorganized to conform to the new framework.

- The Agency continues to make progress in implementing the Government Performance and Results Act (GPRA). We continue to evaluate and improve our performance indicators, targets, and reporting system. We are in the midst of introducing reforms that will more directly link budgeting to specific operational goals.

- With respect to the President's Management Agenda (PMA), USAID has maintained a "green" progress score on the scorecard for Improving Financial Management. To get to a "green" status score, USAID needs to have systems and processes institutionalized that will provide accurate and timely data that can be used by managers to answer critical business and management questions. In addition to the continued rollout of the Phoenix system, approximately 20 new and enhanced reports have been developed and deployed to provide users with complete, accurate, and timely financial information needed for decision-making purposes.

- The Agency has closed one of three longstanding Federal Managers' Financial Integrity Act (FMFIA) material weaknesses, computer security, leaving just two remaining weaknesses - Primary Accounting System and Information Resources Management Processes – both of which we expect to close by the end of FY 2005 with the deployment of Phoenix overseas and the full implementation of tactically- oriented information technology project management oversight and practices.

- USAID took appropriate actions to close three of three material auditor-reported internal control weaknesses identified in the FY 2003 Government Management Reform Act (GMRA) audit.

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

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

Lisa D. Fiely
Chief Financial Officer

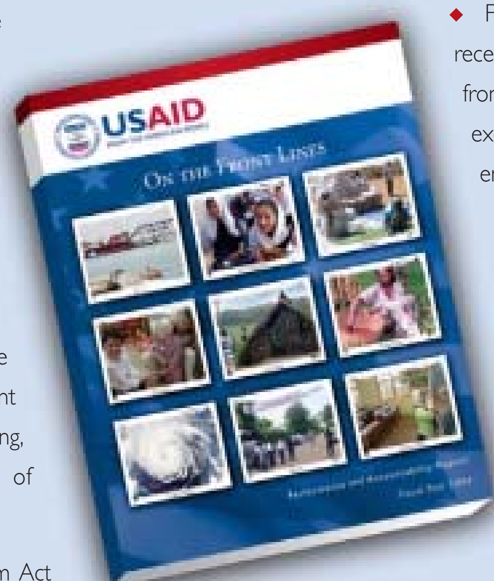
November 15, 2004

About This Report

PURPOSE OF REPORT

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

- Inspector General (IG) Act of 1978 (Amended) – requires information on management actions in response to IG audits.
- Federal Managers' Financial Integrity Act of 1982 – (FMFIA) requires a report on the status of management controls and the most serious problems.
- Chief Financial Officers (CFO) Act of 1990 – provides for the production of complete, reliable, timely, and consistent financial information for use by the executive branch of the government and the Congress in the financing, management, and evaluation of federal programs.
- Government Management Reform Act of 1994 – requires agency audited financial statements.
- Government Performance and Results Act of 1993 (GPRA) – requires an annual report of performance results achieved against all agency goals established.
- Federal Financial Management Improvement Act of 1996 (FFMIA) – requires an assessment of financial systems for adherence to government-wide requirements.
- Reports Consolidation Act of 2000 – authorized federal agencies to consolidate various reports in order to provide performance, financial, and related information in a more meaningful and useful format.



FY 2004 USAID PERFORMANCE AND ACCOUNTABILITY HIGHLIGHTS

- For the second year in a row, the Agency received an unqualified ("clean") audit opinion from our independent auditors, attesting to our exemplary stewardship of the public funds entrusted to us.
- FY 2004 is the first year in which our PAR is structured around a streamlined and cohesive set of Strategic Objectives, Strategic Goals, and Performance Goals that were established jointly between the Department of State and USAID in the Joint State-USAID Strategic Plan for FY 2004 – 2009.
- For the first time, the Agency is presenting provisional or preliminary performance results information for the fiscal reporting year just ended (FY 2004), rather than prior year results data as we have been forced to do in the past, due to the data lag associated with our Annual Report performance management system prepared by each of our operating units. This information has been collected from and vetted by our Regional, Pillar, and Functional Bureaus.

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

HOW THIS REPORT IS ORGANIZED

MESSAGE FROM THE ADMINISTRATOR, USAID

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

MESSAGE FROM CHIEF FINANCIAL OFFICER (CFO)

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

The MD&A is a concise overview of the entire report, similar to an Executive Summary included with a private company's annual report. It includes an organizational overview; a summary of the most important performance results and challenges for FY 2004; a brief analysis of financial performance; a brief description of systems, controls, and legal compliance; and information on the Agency's progress in implementing the President's Management Agenda (PMA) and addressing the management challenges identified by the Office of Inspector General (OIG). The MD&A is supported and supplemented by detailed information contained in the Performance Section, Financial Section and Appendices.

PERFORMANCE SECTION

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

FINANCIAL SECTION

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

APPENDICES

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

Ten Major Achievements – Business Transformation FY 2001 – FY 2004

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

Ten Major Achievements – Afghanistan Reborn with International Help

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

Ten Major Achievements – USAID in Iraq

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

Management's Discussion and Analysis

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

Mission and Values

"Americans now understand that security in their homeland greatly depends on security, freedom, and opportunity beyond the country's borders. Development is now as essential to U.S. national security as are diplomacy and defense. Only through building good policies, stable institutions, and local capacity will developing countries create their own prosperity and assume responsibility for their own security."

– Andrew S. Natsios, Administrator

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

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

Mission

Create a more secure, democratic, and prosperous world for the benefit of the American people and the international community.

Values

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

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

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

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

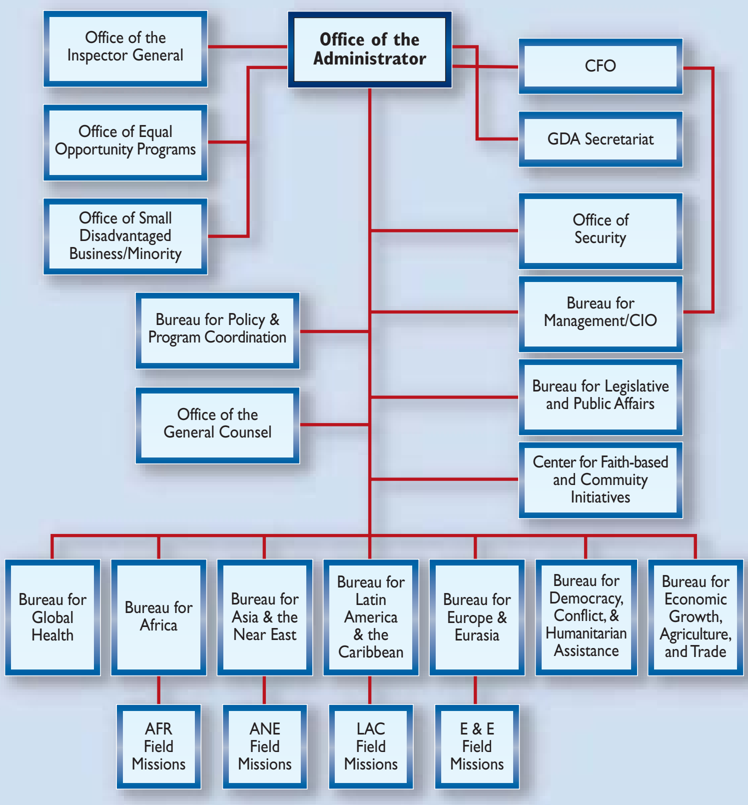
Community: *Dedication to teamwork, professionalism, and the customer perspective.*

Our Organization

ORGANIZATIONAL STRUCTURE IN WASHINGTON, D.C.

At its headquarters in Washington, D.C., USAID's mission is carried out through four regional bureaus (Africa, Asia and the Near East, Latin America and the Caribbean, and Europe and Eurasia). The regional bureaus are supported by technical (or pillar) bureaus that provide expertise in democracy promotion, governance issues, humanitarian assistance, economic growth, agriculture, and health; and management bureaus which provide policy guidance, program management, and administrative support. Another entity, the Global Development Alliance, operates across the four regional bureaus to support the development of public/private alliances. USAID also includes five offices that support the Agency's security, business, compliance, and diversity initiatives. It also maintains a Center for Faith-Based and Community Initiatives.

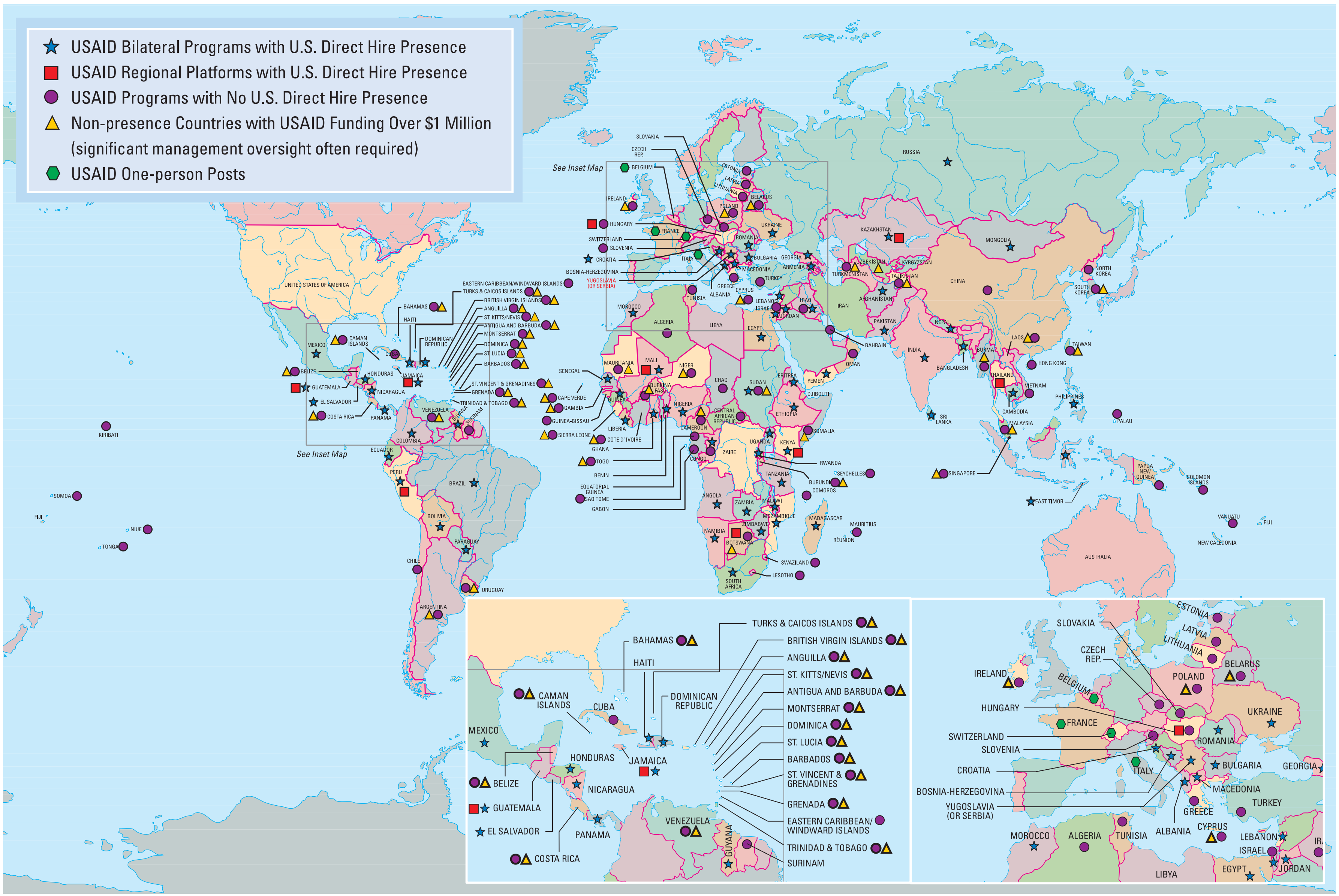
USAID ORGANIZATION CHART



ORGANIZATIONAL STRUCTURE AT MISSIONS AND OTHER LOCATIONS

Through its four regional bureaus, USAID maintains field missions in more than 70 countries and programs in more than 150 countries. Most missions are country specific, but several are centers for regional activities. Missions range in size from large missions of up to 40 American Direct Hires, through mid-sized missions of four to seven, to small missions of one to three. Large missions are stand-alone entities providing most services; medium missions provide core program, administrative, and technical services; and small missions mainly provide only program management services. To assist with donor coordination, USAID has representatives located in Brussels, Paris, Tokyo, Rome, and Geneva.

USAID Locations

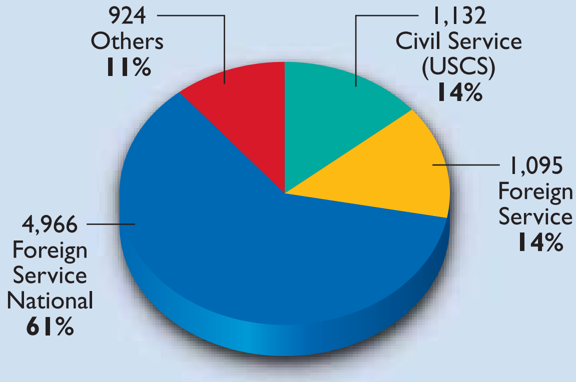


"Non-presence" is defined as a project with no USAID full-time hires in country

USAID'S PEOPLE

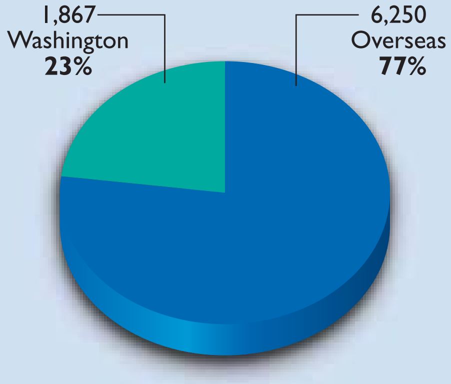
USAID's workforce consists of more than 8,100 employees in the Foreign Service and Civil Service, those serving as Foreign Service Nationals and those in other employee categories, including employees detailed from other U.S. government agencies, personal service contractors, and fellows. As the table indicates, Foreign Service Nationals make up 61 percent of USAID's workforce, and 77 percent of the total workforce serving overseas.

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



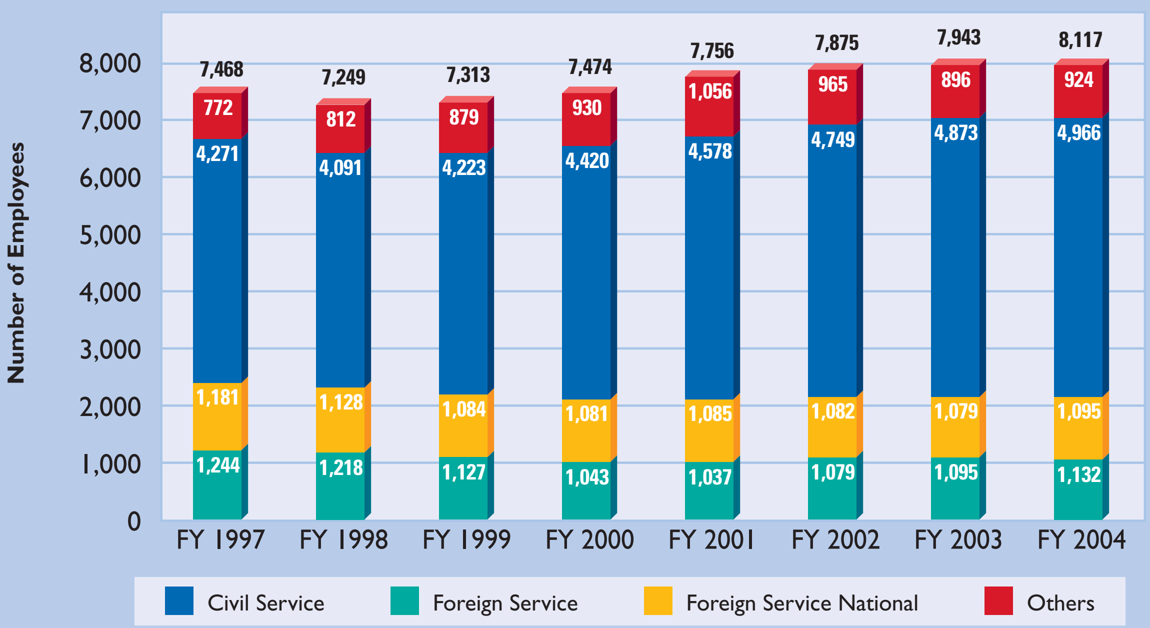
Total Full-time Employees: 8,117

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



Total Full-time Employees: 8,117

Summary of Full-time Permanent Employees



USAID and Department of State Working Together – Effectively and Efficiently

"I'm a great believer in team efforts. That's why we have a State/USAID Joint Strategic Plan. That's why we have a Joint Management Council. The Joint Strategic Plan lays out our foreign policy and development assistance priorities in the coming years and by doing so it promotes an organizational culture in both agencies that values effectiveness and accountability."

— *Colin Powell, Secretary of State*

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

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

The Joint Policy Council is ensuring that development programs are fully aligned with foreign policy goals. An Executive Committee and twelve working groups, led by senior State Department and USAID officials, are addressing ways to improve coordination on key policy and program issues. The working groups cover six world regions and the following functional areas: Democracy, Human Rights, and Justice; Economic Growth; Humanitarian Response; Social and Environmental Issues; Security and Regional Stability; and Public Diplomacy. There are also three cross-cutting issue working groups: Foreign Assistance Effectiveness, Outreach to the Muslim World, and Law Enforcement Issues.

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

Performance Summary and Highlights

"We have common duties: to protect our peoples, to confront disease and hunger and poverty in troubled regions of the world…to promote development and progress…

Across the earth, America is feeding the hungry. More than 60 percent of international emergency food aid comes as a gift of the people of the United States…. Millions are facing great affliction, but with our help, they will not face it alone. America has a special calling to come to their aid and we will do so with the compassion and generosity that have always defined the United States."

– President George W. Bush

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

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

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

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

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

"We've had an incredible increase in foreign assistance, and that's extremely important. We're going to continue to see that development assistance is one of our three Ds: diplomacy, development, and defense

-Condoleeza Rice
National Security Advisor

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

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

MAJOR INITIATIVE IN IRAQ

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

-President George W. Bush
March 19,2004

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

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

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

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

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

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

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

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

A USAID publication highlighting emergency relief and reconstruction aid delivered to Iraq during the 12 months since the fall of Saddam Hussein can be accessed by following this link: *http://www.usaid.gov/iraq/ayeariniraq.html*

MAJOR INITIATIVE IN AFGHANISTAN

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

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

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

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

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

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

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

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

"USAID is reorienting its approach to more traditional developing country programs. We are committed to supporting transformational development, which not only raises living standards and reduces poverty, but also aims to transform countries through far-reaching, fundamental changes in institutional capacity, human capacity, and economic structure. The primary determinant of progress in transformational development is political will by a country's leadership, demonstrated by ruling justly, promoting economic freedom, and making sound investments in people. If commitment does not exist in a country, USAID will redirect its resources to help create a more conducive environment for reform, or move its transformational development resources to where there is such commitment."

– Administrator Andrew S. Natsios

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

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

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

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

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

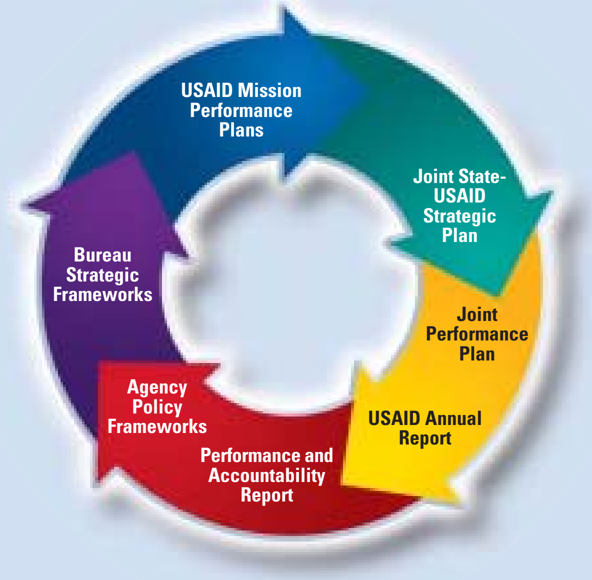
Strengthening failed and fragile states. The President's National Security Strategy wisely recognizes the growing global risks of failing states: "The events of September 11, 2001 taught us that weak states…can pose as great a danger to our national interests as strong states… poverty, weak institutions, and corruption can make weak states vulnerable to terrorist networks and drug cartels within their borders." The failure of states such as the Democratic Republic of Congo, Afghanistan, Lebanon, Bosnia, Somalia, and Liberia had repercussions far beyond their own regions. USAID is dealing with the consequences today. There is, perhaps, no more urgent matter, no more difficult and intractable set of problems facing USAID's portfolio than that of fragile states.

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

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

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

PERFORMANCE MANAGEMENT – A LEADERSHIP PRIORITY



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

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

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

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

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

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

MAJOR INITIATIVE IN SUDAN

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

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

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

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

In addition to providing immediate humanitarian assistance, the Unites States is working to achieve a durable peace in the country. USAID's program helps prepare the Sudanese people for a transition from conflict to peace, and operates in four key sectors: governance, basic education, health, and economic recovery. Many of the efforts also focus on infrastructure development, as transportation difficulties and poor roads are a major obstacle for the Sudanese people and aid workers alike, making it difficult to access some communities and populations. To further foster these long-term development aims, all of the country's activities focus on capacity development.

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

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

MAJOR INITIATIVE IN HAITI

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

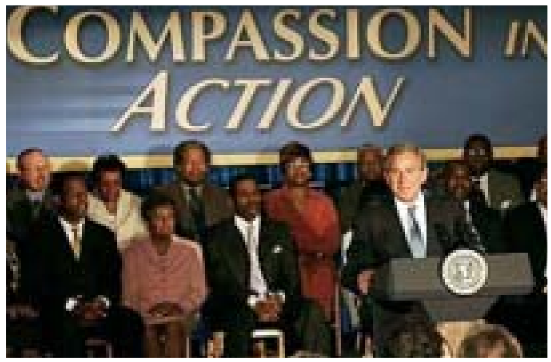
The government led by Jean Bertrand Aristide fell in February, leaving a vacuum that was quickly filled by an interim government charged with restoring basic services, and regaining control of territory outside the capital of Port-au-Prince. Over the course of the past fiscal year, the Agency provided (but not fully dispersed) about $130 million in assistance for political and social reconstruction under the interim government to address the disarray left behind by the Aristide government. The funds support employment generation; institutional support for the interim government; expansion of health, humanitarian, and educational services; and strengthening democratic institutions. In particular, USAID has improved the production and distribution of electricity. Under the President's Emergency Plan for AIDS Relief, Haiti also received $20.3 million in 2004, which will be used to support a comprehensive treatment, prevention, and care program. Haiti has the second-largest number of HIV-positive persons in the Western Hemisphere, estimated at about 210,000.

The country also faced several natural disasters, beginning with severe flooding that devastated entire communities, causing the loss of many lives, and displacing tens of thousands of people. Then tropical storm Jeanne claimed more than 3,000 lives, and set off a humanitarian crisis affecting 300,000 people. The string of natural disasters put an even greater strain on the country's already fragile situation. U.S. Ambassador James Foley issued a disaster declaration, and USAID quickly mobilized to provide a grant to CARE to distribute hygiene kits, cooking sets, blankets, water containers, and other relief supplies. The Agency also promptly dispatched a team from the Office of Foreign Disaster Assistance (OFDA) to help coordinate American relief efforts. USAID provided more than $7.5 million for humanitarian response activities to be implemented by various contracting partners to help rebuild homes and roads and provide irrigation equipment and water and sanitation systems.

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

CONFRONTING THE INTERNATIONAL HIV/AIDS PANDEMIC

The President's FY 2005 budget requests $2.8 billion for fighting AIDS globally, which is the largest single-year request for AIDS spending ever. In his 2003 State of the Union Address, President Bush announced the Emergency Plan for AIDS Relief, a five-year, $15 billion initiative to turn the tide in the global effort to combat the HIV/AIDS pandemic. The HIV/AIDS pandemic has killed at least 20 million of the more than 60 million people it has infected thus far, leaving 14 million orphans worldwide. Today, on the continent of Africa, nearly 30 million people are living with HIV/AIDS – including three million children under the age of 15. The President's Emergency Plan for AIDS Relief (PEPFAR) is helping some of the most affected countries in Africa, the Caribbean, and Asia to extend and save lives affected by HIV/AIDS. The initiative will be used to provide antiretroviral drugs for two million HIV-infected people; prevent seven million new infections, care for 10 million individuals and orphans infected and affected by the disease, and build the health system capacity in Africa, the Caribbean, and Asia.



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

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

- ***The First Year:*** The Emergency Plan expects to have over 200,000 people on treatment by the end of the program's first year, and support care for over 1.1 million people infected with or affected by HIV/AIDS.
- ***Funding for People Most in Need:*** On February 23, 2004, the first $350 million in funding for the focus countries of the Emergency Plan was made available and began reaching people in need only two weeks later. The second distribution of funding, $500 million, will continue to build on prevention, treatment, and care efforts. In total, the Emergency Plan is spending $2.4 billion on global AIDS in FY2004
- ***Prevention:*** The Emergency Plan, from the very beginning, has recognized that to implement an effective prevention strategy, the approach must be based on what works in each place, with the individuals and groups being targeted.
- ***Care:*** The Emergency Plan is making a tremendous investment in training and infrastructure in order to care for 10 million people infected or affected by HIV/AIDS, including orphans and vulnerable children. Improving capacity is also essential for all efforts to be sustainable for the long term. To cite just one example, the U.S. has quickly trained 14,700 health workers and built capacity at over 900 different health care sites.
- ***Treatment:*** To achieve the goal for treatment, the Emergency Plan seeks to keep HIV-positive people alive by providing anti-retroviral drugs – not just any drugs, but safe and effective drugs. These drugs may include brand name products, generics, or copies of brand name products.

How We Manage and Measure Performance

OUR CURRENT SYSTEM AND OUR PLANS FOR THE FUTURE

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

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

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

JOINT STATE-USAID STRATEGIC PLAN FRAMEWORK

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

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

STRATEGIC PLANNING FRAMEWORK

USAID Changed Its Strategic Goals in FY 2004

2000 Strategic Plan

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

FY 2004-2009 Joint USAID/ State Department Strategic Plan

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

AGENCY STRATEGIC OBJECTIVES AND STRATEGIC GOALS

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

HOW WE ASSESS PERFORMANCE

Six-Tiered Methodology

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

Six-Tiered Methodology

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

STRATEGIC PLANNING FRAMEWORK

Strategic Objectives and Strategic Goals that USAID reports against

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

Strategic Objective #1: Achieve Peace and Security

Strategic Goals to Meet this Objective:

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

Strategic Objective #2: Advance Sustainable Development and Global Interests

Strategic Goals to Meet this Objective:

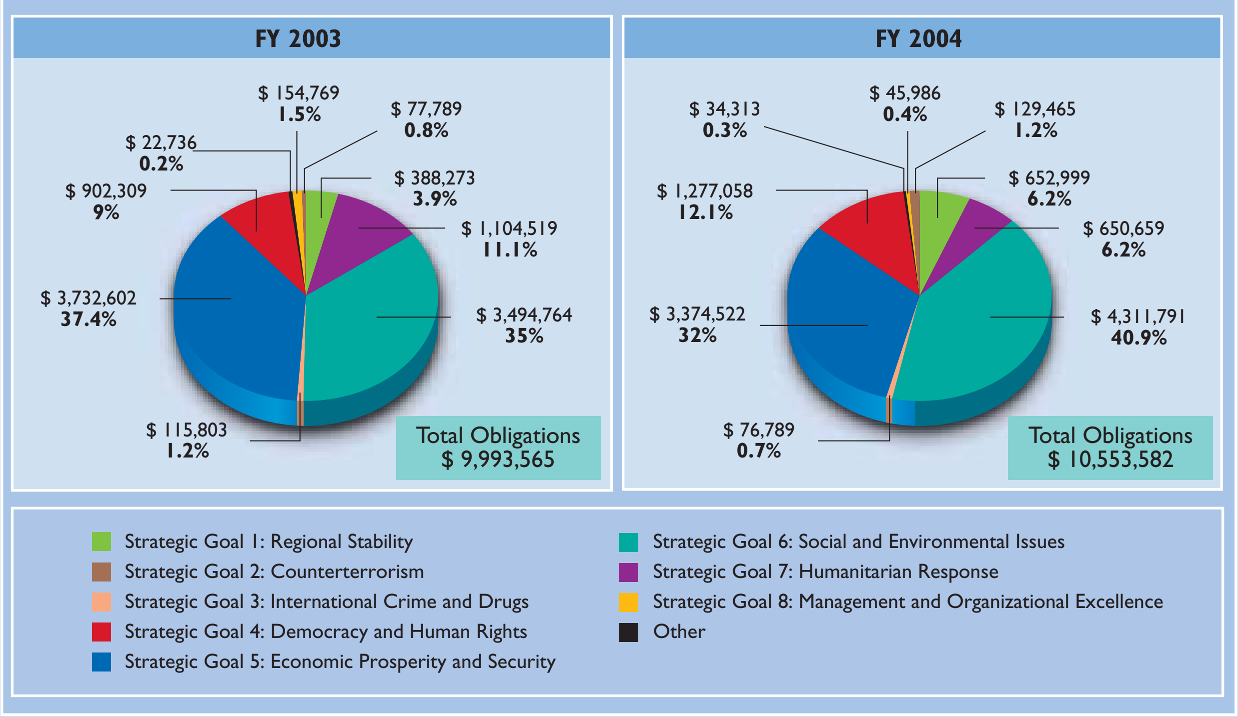
SG #4 Democracy and Human Rights
SG #5 Economic Prosperity and Security
SG #6 Social and Environmental Issues
SG #7 Humanitarian Response

Strategic Objective #3: Strengthen Diplomatic and Program Capabilities

Strategic Goal to Meet this Objective:

SG #8 Management and Organizational Excellence

USAID NET PROGRAM COSTS DEDICATED TO STRATEGIC GOALS *(Dollars in Thousands)*



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

FY 2004 Performance Reporting Improvements

SIX AREAS OF IMPROVEMENT

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

1) Results Presented in Concise Strategic Goal Chapters: The Agency provides a robust analysis of its FY 2004 performance within strategic goal chapters, each of which include seven sub-sections, as described below and further discussed in the performance section:

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

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

3) Improved Performance Indicators and Targets: During FY 2004, the Agency continued to evaluate and improve its performance indicators and targets. Over time, the Agency has and will continue to replace weak indicators and targets with ones that measure more accurately progress on issues, provide a better measurement of success, and focus on where resources are spent. In many cases, targets and indicators have been modified or clarified, but more work needs to be done in this area. In future years, the Agency will be able to present more of its performance results in quantifiable terms using outcome-oriented indicators.

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

5) Assessments of Program Performance: In any given fiscal year, outside organizations perform in-depth assessments of the Agency's programs. These assessments benefit the Agency because they provide managers with an objective assessment of performance and specific recommendations for improvement. Moreover, these data will help the Agency determine whether program managers have incorporated the recommendations for improvement into their strategies for achieving performance targets. In turn, this increases program manager accountability for attaining desired performance levels.

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

6) Use of the New Joint Strategic Planning Framework and Goal Structure: The new framework, a product of many months of high-level collaboration between the State Department and the Agency, represents a more coherent, concise, and logical reflection of how the Department and USAID organize their work towards given results/outcomes. The Agency's performance reporting platform for FY 2004 and onwards, as reflected in the report, uses the new planning framework and goal structure. FY 2003 targets developed within the previous framework have been reorganized to conform to the new framework. As required, this report addresses all FY 2004 targets.

FUTURE PERFORMANCE REPORTING IMPROVEMENTS

Due to the nature of USAID's traditional performance reporting process, our Annual Report (AR) database, it is extremely difficult for the Agency to meet the November 15th accelerated reporting deadline for the PAR with final, validated performance results. Our worldwide operations are conducted in conjunction with many types of organizations (i.e., Private Voluntary Organizations (PVOs), Non-Governmental Organizations (NGOs), and many private donor organizations), through a wide variety of business or contractual agreements (i.e., grants, cooperative agreements, contracts, etc.), making it extremely difficult to establish one reporting deadline for the entire Agency that would support the data needs of the PAR on such an accelerated schedule. In fact, many of these organizations report on a calendar year (versus fiscal year) basis, and are challenged to meet the AR reporting deadline each year, which doesn't occur until mid to-late December, considerably later than the due date for the PAR.

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

PERFORMANCE RATING METHODOLOGY

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

OUR PERFORMANCE RATING SYSTEM

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

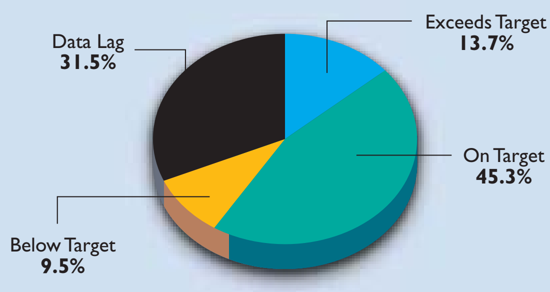
This methodology represents an important step toward using a standard tool to evaluate the Agency's work. However, to correctly interpret the numerical analysis of the report, it is important to note the following:

Data Lags: The Agency could not report on a large percentage of its FY 2004 performance results by the November 15th PAR deadline. In the majority of cases this was due to lagging, calendar year-based data, collected through USAID's Annual Report database process (which is not available until after mid-December each calendar year), and is therefore reported as a "Data Lag." In cases where data estimation techniques could be applied to certain Indicators and Targets, those performance results are included, but are identified as "Provisional or Preliminary." *The Agency plans to publish an Addendum to the FY 2004 PAR, in March 2005, which will provide final, validated performance results information that will be generated on the basis of the Annual Report database, the Agency's traditional data collection and analysis tool that generates performance data in the December timeframe each year.* Each Strategic Goal chapter in the Performance Results section includes a table that identifies the number of Preliminary Results and data lags associated with that particular Strategic Goal.

Summary of FY 2004 Preliminary Performance Results

SUMMARY OF ALL RESULTS

SUMMARY OF FY 2004 PRELIMINARY PERFORMANCE RESULTS



Performance Rating	Number of Results
Exceeds Target	10
On Target	33
Below Target	7
Data Lag	23
Total Number of Results	73

Most Important Results and Continuing Challenges

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

MOST IMPORTANT RESULTS AND CONTINUING CHALLENGES	
REGIONAL STABILITY	
Results	**Challenges**
Working in close cooperation with the Iraq interim government to improve the lives of Iraqis, USAID is devoting substantial resources throughout the country to restore critical infrastructure, support the delivery of healthcare and education services, expand economic opportunities, and improve governance. The USAID activity in support of the Iraqi people has been massive. Below is a short summary of the kinds of help provided: ◆ Restored electricity generation capacity, by October 6, 2003, to surpass the pre-war daily levels of 4,400 megawatts. ◆ Implemented water and sanitation projects worth $183 million that will benefit 14.5 million people. ◆ Vaccinated over 3 million children through monthly national immunization days. ◆ Equipped 600 facilities in seven target governorates to provide essential primary healthcare services. ◆ Renovated 2,356 schools nationwide and provided the necessary furnishings, books, and educational supplies to assure that the school year resumed as scheduled on October 3, 2004, despite the disruptions of the war. ◆ Implemented 17 high-priority activities to reform Iraq's currency, state-owned enterprises, small businesses, banking system, taxation system, budgeting, and utility administration. ◆ Facilitated the Central Bank program to introduce a new Iraqi currency. 4.62 trillion new Iraqi dinars were placed in circulation (worth approximately $3.2 billion). ◆ Created more than 77,000 public works jobs through the National Employment Program. ◆ Established a total of 678 representative councils at every level (governorate, district, sub-district, municipality, and neighborhood), allowing more than 19 million people to engage in local policy discourse and be represented in decision processes. ◆ Iraq: The Local Governance Program awarded 148 grants to local government agencies totaling $11.5 million to restore basic services and has established the Iraqi Women in Local Governance Group in response to the challenge of women's gross under-representation in political processes across Iraq.	◆ Strengthening the management skills and capacity of local administrations, local interim representative bodies, and civic institutions to improve the delivery of essential municipal services, such as water, health, public sanitation, and economic development in Iraq. ◆ Factionalism, ongoing violence, and lingering pockets of terrorism continue to threaten the viability and stability of Afghanistan's central government and make it difficult to cement democratic institutions. ◆ In many countries where USAID works, violence and instability continue to hamper USAID's efforts to catalyze democratic transformations and remove sources of conflict.

MOST IMPORTANT RESULTS AND CONTINUING CHALLENGES	
REGIONAL STABILITY	
Results	**Challenges**
◆ After a violence-free Constitutional Loya Jira, Afghanistan adopted a constitution that effectively incorporated both Islamic traditions and democratic principles. Subsequent voter registration for the country's recent historic election was very successful, with over 10 million voters registered, approximately 40 percent of whom were women. ◆ On both sides of the Kenya/Somali border, pastoral groups have always resorted to violence to resolve water disputes, one of the root causes of conflict in this volatile region. During the past three years, USAID has funded a pact to work with the Wajir South Development Association (WASDA) to reduce conflict by improving water sources and establishing peace committees that monitor the level of tension in communities and harmonize the needs of neighborhoods. As a result, communities in the region are experiencing peace for the first time, food security has improved, and small businesses are flourishing. ◆ Through targeted efforts to encourage economic development in conflict-affected areas of the Philippines, USAID is helping foster reintegration of more than 21,000 former Moro National Liberation Front combatants into the peaceful economy. USAID's efforts to reintegrate the former combatants have been so successful that they are serving as a model for U.S. relations with Islamic communities worldwide.	
COUNTERTERRORISM	
Results	**Challenges**
◆ In Afghanistan, seven judicial facilities were built or rehabilitated (estimate) and 443 judicial experts were trained (estimate) in order to strengthen the legal system as a counterterrorism measure.	◆ The two goals of countering terrorism and expanding Muslim outreach to support moderates create a real dilemma for the U.S. government. Security requirements restrict exchanges and limit the NGOs with whom USAID can work, in effect limiting the Agency's outreach. Survey data show that negative views of the U.S. pervasive throughout the Muslim world are due to U.S. policies as well as perceived maltreatment of Muslims in the U.S. ◆ The ability of USAID and USAID front-line staff to effectively develop, oversee, and monitor projects is severely hampered by the security situation in the crisis areas where the Agency operates. ◆ Regional pockets continue to harbor terrorists and radicals who pose a significant risk to those countries, as well as to the United States.

MOST IMPORTANT RESULTS AND CONTINUING CHALLENGES

INTERNATIONAL CRIME AND DRUGS

Results	Challenges
◆ USAID is working with the governments of Bolivia, Colombia, and Peru to eradicate coca and opium poppy by providing licit income alternatives and strengthening communities. ◆ With the efforts of USAID and the government of Bolivia over the last 10 years, the area committed to coca has dropped by over 85 percent, from about 35,000 hectares to 4,500 hectares, and the area committed to legal crops has expanded to more than 135,000 hectares. USAID programs have introduced new crops and agricultural research, stronger market linkages and producer groups, a vast network of all-weather cobblestone farm-to-market roads, electrification, investment promotion, and environmental mitigation. ◆ A U.S. government interagency action plan is in place to provide Afghanistan's farmers with alternative on- and off-farm sources of livelihood to push back poppy production and develop an economy that can participate fully in the global marketplace.	◆ Despite bold efforts by Colombia, Bolivia, and Peru to combat narcotrafficking, the lack of state presence in some areas has allowed illegal narcotics production and armed terrorist organization to continue to flourish. ◆ Drug related spillover criminal activity brings threats of violence and instability to communities along Ecuador's northern border with Colombia. ◆ Afghanistan is the source of three-quarters of the world's opium. Persistent poverty, high opium prices, and loans from traffickers were all reasons for high opium production in 2004. Farmers are aware of the government ban on opium production, but the short-term benefits of the activity outweigh the potential risks from law enforcement measures.

DEMOCRACY AND HUMAN RIGHTS

Results	Challenges
◆ There was continued progress in Eastern Europe and Eurasia in building democratic institutions, movement towards political integration with Europe in a number of countries, especially Croatia and Bulgaria, and the ability to repeatedly hold elections that are at, or near, European Organization for Security and Cooperation in Europe/Office for Democratic Institutions and Human Rights (OSCE/ODIHR) standards. Past efforts in assistance for election administration and oversight are bearing fruit. ◆ In Latin America, USAID provided technical assistance in Paraguay to help local governments become more responsive, transparent, and accountable, and supported civil society in providing control and oversight of the public sector. In El Salvador, USAID programs have assisted in increasing access to justice in El Salvador by establishing centers that provide free legal advice and mediation services to 4,252 mostly rural people who have limited access to the formal justice system. The Public Defender's Office has decided to replicate and finance this successful initiative on a national scale over the next three years. ◆ In Africa, assistance to Sudan paid for governance programs that resulted in more financially viable grassroots organizations, more capable civilian administrations, more participatory political and constitutional development processes, and greater access to quality, independent broadcast and print media in all major southern Sudan languages. In Uganda, USAID work with Parliament has been the basis for firmer separation of powers. A core parliamentary group now has the skills to engage on policy issues, refine draft laws originating in the executive branch, and to initiate bills within the Chamber. ◆ USAID provided extensive technical assistance in support of Indonesia's national and local elections. This included election support programs, media development, civil society strengthening, political party development, and a program to support moderate Muslim groups. Free and fair elections were held in September for a new president, house and senate members, and provincial leaders.	◆ Eastern European countries need continued assistance to make their democratic institutions more stable, robust, and mature in preparation for broader political and economic integration with Europe. In both Europe and Eurasia continued efforts are needed to promote a culture of democratic values, while working against ethnic and religious extremism, separatism, and intolerance. ◆ Since the fall of Paraguay's dictatorship 14 years ago, challenges to the country's democracy include several coup attempts, the assassination of a vice president, and the resignation of a president. In El Salvador, the declining share of national income for the poor undercuts the significant progress the country has made over the past decade and poses a serious threat to an emerging democracy. ◆ In Sudan, intermittent conflict and related human rights abuses (especially in the western Sudan region of Darfur) and deep ethnic and religious rifts will make reconciliation and a transition to peace difficult. Uganda's progress toward a vigorous and representative multi-party democracy requires permitting political parties to operate freely and constructively, as well as building institutions and systems which can check and correct abuse of authority and corruption.

MOST IMPORTANT RESULTS AND CONTINUING CHALLENGES

ECONOMIC PROSPERITY AND SECURITY

Results	Challenges
◆ At least 50,000 Iraqis per month are finding work – whether temporary or permanent – through USAID-supported programs. ◆ Most recent data indicate that USAID invested over $183 million in programs supporting micro-enterprises worldwide. These programs supported microfinance programs serving more than seven million borrowers and providing almost $4 billion in loans. USAID programming also supported savings services to 34 million people whose savings totaled $4.5 billion. The Agency achieved these results through supporting 568 institutions worldwide. ◆ The U.S.–Central America Free Trade Agreement (CAFTA) was signed in May 2004. USAID participated in the trade capacity building working group during the negotiations, and now co-chairs the post-negotiations CAFTA Trade Capacity Building Committee. USAID was instrumental in technical assistance and public outreach activities in Central America and the Dominican Republic that resulted in the successful completion of the negotiations and enhanced civil society participation in the process. The efforts of USAID effectively linked aid and trade and laid a foundation which facilitated trade capacity building assistance, helping the countries to maximize the benefits of CAFTA once ratified and effective. About 22,000 people received trade capacity building training under the CAFTA Initiative in policy areas like competition, intellectual property, corruption, and barriers to investment. Such training strengthens their capacity to be strong trading partners. ◆ 41,000 vulnerable small farm families benefited from investments under the Initiative to End Hunger in Africa. This greatly reduces hunger and poverty, enabling families and their communities to improve their standard of living.	◆ Some 52 percent of Iraqis are still unemployed, and many of those with jobs are underemployed, working part-time or for small income. This is a particularly alarming figure, given that some 70 percent of the Iraqi population is under 25 – a large labor pool with need for economic opportunity. ◆ In the ratification of CAFTA, USAID must continue to assist each country and help governments to implement CAFTA requirements such as health and food safety standards, customs, and intellectual property rights. Help countries maximize the benefits of CAFTA, especially by broadening the participation of the rural-based poor and increasing the competitiveness of the small business and agricultural sectors. ◆ High unemployment rates, a ballooning youth population, and graduates without employable skills contribute to growing dissatisfaction and potential instability in many countries. ◆ The shifting of food markets from "markets with public faces" of the parastatal 1960s and 1970s, to "faceless markets" of the liberalized 1980s and 1990s, to "markets with private sector faces" of today have forced producers to develop complex relationships with the private sector or face exclusion from the markets.

MOST IMPORTANT RESULTS AND CONTINUING CHALLENGES

SOCIAL AND ENVIRONMENTAL ISSUES

Results

- USAID has made many significant contributions to the fight against HIV/AIDS. Sixteen countries in Eastern Europe and Eurasia, for example, have received awards totaling more than $564 million from the Global Fund to Fight AIDS, Tuberculosis, and Malaria, which dramatically increased the resources available to fight those three diseases in the region. USAID assistance was critical to grant application success for many of those countries. Also, as a result of USAID support, the governments of Guatemala, Nicaragua, Honduras, El Salvador, Nicaragua, and Panama have enacted legislation protecting the rights of people living with AIDS. All of the Central American governments have committed to expanding access to full antiretroviral therapy.
- In FY 2004 USAID committed just over $80 million for malaria programs—a nearly four-fold increase since 1998 when USAID's Infectious Disease Initiative was launched. These new and expanded resources have allowed for a significant scaling up of malaria activities from five countries to 20 now targeting national level impact and leading to increased coverage with interventions, better policies, and visibly stronger programs.
- In countries such as Benin, Nepal, the Democratic Republic of Congo, Nicaragua, and 23 others, USAID is providing Vitamin A supplementation to promote better nutrition. Vitamin A deficiency can lead to nutritional blindness among children and adults, and death. Of those 27 countries where USAID promotes and provides Vitamin A, 15 now have greater than 50 percent coverage with nutritional supplementation, and the Agency knows that under five mortality decreases by up to 30 percent in these regions with Vitamin A supplementation. That means literally millions of children across the world are surviving due to USAID intervention to provide Vitamin A.
- In 2004, USAID/Global Health (GH) worked with partners to expand simple approaches to providing safe water to the millions of households lacking secure water supplies. The "Safe Water System," developed with the Centers for Disease Control (CDC), provides household water disinfection with diluted bottled chlorine solution coupled with safe water storage and hygiene education. This system is now operating at national scale in Madagascar and Zambia and at sub-national scale in Afghanistan and India. USAID also worked with Procter & Gamble and other partners on a product which purifies even lower quality water by removing suspended sediment as well as a disinfecting with chlorine. In 2004, USAID and partners launched this approach on a fully commercial basis in Pakistan, and are also applying it through NGOs in Haiti and in emergency/refugee settings in Ethiopia. In addition, three million people have improved access to safe water with the construction of 497 wells since the start of the Water for the Poor Initiative.

Challenges

- The adult HIV/AIDS prevalence rate in the Caribbean is surpassed only by Sub-Saharan Africa. Social patterns of early sexual initiation and multiple partners increase the risk. In Asia and the Near East, eight million people are HIV positive, and each year hundreds of thousands die from HIV/AIDS-related illnesses. This could increase exponentially if the epidemic is allowed to spread from high-risk groups to the general population in countries like India, China, Indonesia, and Thailand.
- Recent detailed analyses of demographic and health survey data indicate that in some countries the use of Oral Rehydration Therapy (ORT)—developed by USAID and considered one of the oldest and most basic child survival interventions—may be starting to decline. This may be the result of countries having integrated diarrheal disease control programs into larger, less focused, and underfunded health systems in poor countries. In response, USAID is working with the World Health Organization (WHO), United Nations Children's Fund (UNICEF), and other partners to revitalize ORT, using the new improved formulation of oral rehydration solution and newly available zinc treatment as entry points.
- Spurred by growing global demand for timber and paper, illegal and destructive logging remains one of the key threats to the world's oldest forests in Bolivia. Only 17 million hectares, or 0.5 percent of all forests, are under ecologically-sound management as certified by independent international certification bodies. Land degradation also is a serious impediment to maintaining the quantity and quality of water. With 60 percent of the world's population depending upon only one-third of the world's land area, Asia will need to confront and reverse the land degradation trends to meet the needs of its population.
- Rural and poor populations, often the majority in many countries in Latin America and the Caribbean, face many obstacles to quality education. Language barriers, long distances to schools, and poorly trained teachers contribute to very high dropout rates. In some countries, fewer than 60 percent of the children who start school reach the fifth grade. Access to education, low enrollment, and high illiteracy are continuing concerns for the Asia and Near East region. Over half the world's illiterate population lives in this region, and 69 percent of the world's illiterate females. Enrollment for girls is a large problem.

Continued

MOST IMPORTANT RESULTS AND CONTINUING CHALLENGES

SOCIAL AND ENVIRONMENTAL ISSUES *(continued)*

Results	Challenges
◆ USAID is making strides to improve the environment around the world. In Bolivia, USAID built partnerships among local communities, the forest industry, and the public sector to improve the management of valuable tropical forests. With 7.5 million hectares of commercial forests under approved management plans in 2003 and nearly 1.2 million hectares certified as well-managed and another 1 million-plus hectares awaiting certification, Bolivia has the largest area of certified natural forest management in the tropics. In Iraq, the Marshlands Restoration Program is restoring the marshland ecosystem through improved management and strategic re-flooding resulting in health and economic benefits to the Marsh Arabs. Missions are also working to stop illegal logging by improving ownership and management of over two million hectares of forest lands in Asia and the Near East. USAID Missions in the Philippines, Indonesia, Afghanistan, and Bangladesh have also embarked on new programs to rehabilitate degraded lands. ◆ In education, USAID's Centers for Excellence in Teacher Training have trained nearly 7,000 teachers in techniques for teaching reading, and trained teachers to produce educational materials. The Regional Education and Employment Alliance has been created to give children a higher quality basic education that leads to livelihood skills and employment. Current priority countries include Egypt, India, Indonesia, Morocco, Pakistan, and the Philippines. In Afghanistan, USAID distributed 15 million textbooks and 30,000 teachers' kits, and in India, USAID is renovating more than 5,000 schools in two states, reaching over one million students.	

HUMANITARIAN RESPONSE

Results	Challenges
◆ In response to the crisis in Darfur, Sudan, and Eastern Chad, the USAID Office of Foreign Disaster Assistance (OFDA) has deployed a Disaster Assistance Response Team and has worked tirelessly to help suffering populations. USAID assistance to Darfur and Eastern Chad in FY 2004 exceeded $71 million, and included efforts to provide water and sanitation, shelter, nutrition, agricultural inputs, and other important support. ◆ The Office of Food for Peace (FFP) provided over 325,000 metric tons of Title II resources, valued at approximately $215 million, to Zimbabwe, Zambia, and Malawi. Through the World Food Program (WFP) and the Consortium for Southern Africa Food Security Emergency (C-SAFE), a consortium of NGOs operating in the region, FFP helped sustain a population of more than 12 million people, preventing the development of a major humanitarian crisis in the region. The Agency also continues to provide critical humanitarian assistance to the people of Ethiopia, as the confluence of periodic drought, rapid population growth, and stagnating agricultural productivity has led to a cyclical pattern of food insecurity. In the country's latest food crisis, approximately 13.2 million Ethiopians—20 percent of the population—needed emergency food assistance. This response required over one million metric tons of commodities, valued at $450 million, in order to avert widespread famine conditions and population movements.	◆ Food is often identified as the most immediate and critical need of people living with HIV/AIDS and households affected by HIV/AIDS in the countries where food aid programs are implemented. In addition, households affected by HIV/AIDS are more vulnerable to food insecurity. Clearly, interventions focusing on food insecurity and nutritional status should take into account the impact of HIV/AIDS, and HIV/AIDS strategies and interventions should consider the nutrition and food security problems facing individuals infected by HIV and communities and families affected by HIV/AIDS. Food aid resources, however, have not increased in response to this heightened awareness. Although the attempt is made to seize opportunities to link HIV/AIDS and food-assisted programs, it is clear that current food aid levels may preclude any increases in resources provided in support of HIV/AIDS programming objectives.

MOST IMPORTANT RESULTS AND CONTINUING CHALLENGES

MANAGEMENT AND ORGANIZATION EXCELLENCE

Results	Challenges
◆ Five USAID overseas Missions – Egypt, Ghana, Peru, Columbia, and Nigeria – went live with Phoenix, the new financial management system, in FY 2004. Phoenix, unlike the current overseas Mission Accounting and Control System (MACS) it replaces, is compliant with federal regulations and when fully implemented will be the central component of the Agency's global business platform. ◆ In FY 2004, the U.S. Office of Personnel Management (OPM) approved the Agency's appraisal plans and award programs to ensure that performance appraisals link, differentiate, and provide consequences for Senior Executive Service (SES), Senior Foreign Service (SFS), and Managers. ◆ The Development Readiness Initiative (DRI), modeled after the Department of State's successful Diplomatic Readiness Initiative, was launched by Administrator Natsios in FY 2004. The DRI is the most aggressive recruitment effort to rebuild and revitalize the Agency's workforce in more than a decade. This initiative, the cornerstone of the Agency's succession planning efforts, provides surge capacity to respond quickly to emerging program priorities. The Agency hired approximately 50 new employees with mission critical skills through the DRI in FY 2004. ◆ The Agency developed a formal strategic budgeting model to help decide how to allocate resources to bilateral country programs. The Agency first applied this model to the formulation of its FY 2004 budget request, which resulted in reallocation of some funds from lower performing to higher performing programs. The model was expanded during the formulation of the FY 2005 budget to categorize countries based on Millennium Challenge Account (MCA) criteria of commitment to economic freedom, governing justly, and investing in people. ◆ To shape the development policy debate, the Bureau of Policy & Program coordination (PPC) worked closely with technical experts in the bureaus and missions and with interagency partners to analyze policy and strategy issues, develop and disseminate USAID core policies and strategies, and develop outreach materials that convey USAID analysis and policy to target audiences within and outside the Agency. During 2004 USAID finalized and disseminated a major discussion paper: "U.S. Foreign Aid – Meeting the Challenges of the Twenty-first Century," as well as other analytical papers focused on growth and on governance in Muslim societies. USAID also completed strategies for agriculture, fragile states (pending), education (pending) and anti-corruption (pending), as well as policy papers on assistance to internally displaced persons and on conflict (pending).	◆ In FY 2005, USAID must be able to ensure to OMB that performance appraisal plans link, differentiate, and provide consequences for 60 employees. ◆ Resources must continue to be provided for the DRI. The DRI plan initiated in FY 2004 calls for the Agency to hire a total of 250 additional employees over the next three years, thereby increasing the direct hire workforce from about 2,000 in FY 2004 to 2,250 by FY 2006 (assuming full funding). These new employees are being recruited through several hiring mechanisms. Entry-level Foreign Service Officers are being recruited and trained through the International Development Intern (IDI) program. The Agency is reinstating a Contract Specialist Intern Program (CSIP) and expanding the use of Presidential Management Fellows (PMF) to fill critical skill gaps in its procurement staff and other Washington-based Civil Service positions.

PRELIMINARY PERFORMANCE RESULTS FOR FISCAL YEAR 2004

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

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

MAJOR PRESIDENTIAL INITIATIVES

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

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

The Clean Energy Initiative:

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

Trade for African Development:

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

Centers for Excellence in Teaching:

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

Initiative to End Hunger in Africa

Interventions in the Niger Upper Valley Zone have contributed to a near doubling in the production of onions, green beans, and sesame over the past four years. Increased sales of treadle pumps to smallholder farmers factor into the increase. USAID support also helped to establish 220 smallholder farming plots benefiting approximately 9,000 producers of whom 82% are women. EnterpriseWorks Worldwide, a non-profit organization and initiative partner, is working to expand the use of efficient wood-burning stoves. So far, the sale of 73,500 stoves has saved 24,000 hectares of forest and reduced CO_2 emissions.

Central American Free Trade Agreement Initiative

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

Faith-Based and Community Initiatives

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

LAST MILE INITIATIVE

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

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

Key Elements of Last Mile Initiative Country Programs

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

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

Last Mile Initiative Targets

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

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

Last Mile Initiative Budget

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

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

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

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

Technical Leadership

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

Operational Integration

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

Alignment of Foreign Assistance and Foreign Policy Objectives

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

The Evolving Role of Foreign Assistance

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

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

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

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

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

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

Global Development Alliance

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

Financial Implications

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

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

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

Data Reliability, Completeness, and Validity

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

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

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

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

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

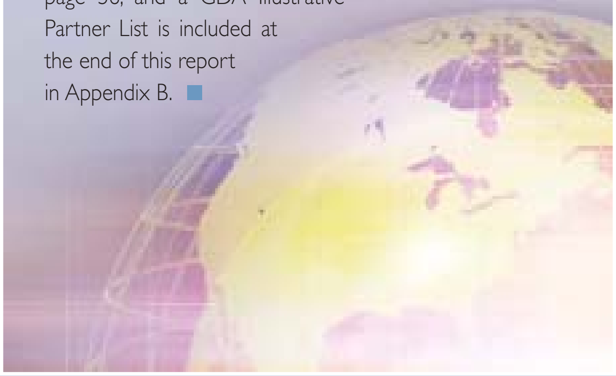
GLOBAL DEVELOPMENT ALLIANCE

Overview

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

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

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



Illustrative Examples of Significant Achievements

STRATEGIC GOAL #1: REGIONAL STABILITY

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

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

STRATEGIC GOAL #2: COUNTERTERRORISM

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

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

STRATEGIC GOAL #3: INTERNATIONAL CRIME AND DRUGS

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

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

STRATEGIC GOAL #4: DEMOCRACY AND HUMAN RIGHTS

Funded through the Africa Bureau's Anti-Corruption Initiative, a sub-grant to the Timber Producers Association of Zambia (TPAZ) exposed the corrupt inner workings of the timber industry and illicit dealings by commercial saw millers. To expose corrupt government officials, TPAZ officials, with cameramen from the national television station, led the Deputy Environment Minister on a surprise raid of an illegal lumberyard. This was captured in dramatic news footage, and broadcast nationally, showing the Minister in conflict with the manager of the plant, who refused to reveal the source of the company's timber. The manager, a foreigner, was fined and deported. The episode revealed the extent of corruption in the timber industry, resulting in the government's temporarily banning the issuance of lumber licenses in order to realign procedures to curb corruption.

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

STRATEGIC GOAL #5: ECONOMIC PROSPERITY AND SECURITY

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

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

STRATEGIC GOAL #6: SOCIAL AND ENVIRONMENTAL ISSUES

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

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

STRATEGIC GOAL #7: HUMANITARIAN RESPONSE

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

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

STRATEGIC GOAL #8: MANAGEMENT AND ORGANIZATIONAL EXCELLENCE

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

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

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

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

Phoenix becomes operational in Peru.

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

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

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

Continued on next page

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

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

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

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

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

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

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GDA - A PRINCIPAL BUSINESS MODEL FOR THE AGENCY

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

Final FY 2003 Results

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

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

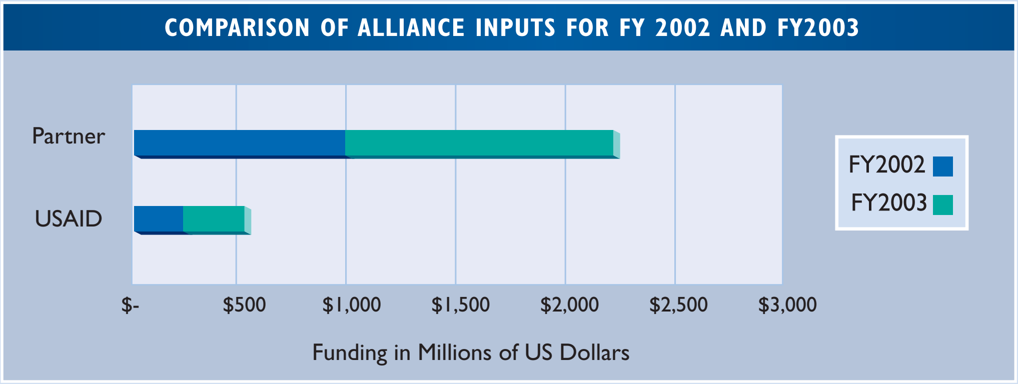

Figure 1

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Summary and Ramifications of FY 2003 Results Rated " Below Target"

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

Strategic Goal 1

Regional Stability

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

Strategic Goal 2

Counterterrorism

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

Strategic Goal 4

Democracy and Human Rights

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

Strategic Goal 5

Economic Prosperity and Security

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

Strategic Goal 6

Social and Environmental Issues

15 operating units – West Bank/Gaza, Jamaica, Mali, Brazil, Afghanistan, Russia, Guyana, Liberia, Democratic Republic of Congo, Bureau for Global Health, Dominican Republic, Natural Resource Management Office, Guatemala, the Regional Center for Southern Africa, and the Philippines – failed to achieve targets in their social and environmental objectives. This Strategic Goal contains the greatest diversity of sectors – including health, education and environment – and thus is hardest to summarize. In West Bank/Gaza, keeping USAID trainees in the country and working in their specialties proved to be the challenge that prevented the operating unit from reaching its objective. In the Dominican Republic, creating health service providers for the poor that can increasingly sustain themselves financially proved illusive. In all cases, these failures are attributable to the challenge of expanding social services in developing countries. The corrective action taken differs according to the specific circumstances in each country and can be found at http://cdie.usaid.gov/index.cfm?fuseaction=ucAR2004.searchAdv. (If your computer is unable to access this report, please contact USAID's Bureau for Policy and Program Coordination (PPC) at (202) 712-0285, and a copy of the report will be forwarded to you). The failure of these 15 operating units to meet their country specific targets, did not, however, impede the Agency from achieving its Social and Environmental Issues goal.

Strategic Goal 7

Humanitarian Response

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

Business Transformation at USAID

"The most fundamental changes in national security policy since the beginning of the Cold War are occurring. And President Bush has been emphatic that development will play a central role. This is, then, a turning point for USAID as it is for the country as a whole. To remain effective, the Agency must enhance its business systems and processes. I have made management reform one of my highest priorities so that this Agency can meet the challenges of the new era."

– Administrator Andrew S. Natsios

USAID'S BUSINESS TRANSFORMATION

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

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

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

Administrator Natsios' Management Reform Principles

1. Simplify and standardize business systems and processes to reduce cost, simplify use, and enable the Agency to respond with speed and agility to charge program needs.

2. Establish a customer service culture making the Agency's own business systems as cost effective and user friendly as possible.

3. Increase efficiency by reducing overhead expenses so that costs of doing business are transparent, aggressively managed, and compare favorably with peer organizations.

4. Promote partner inclusiveness in all business relationships to better meet the needs of internal and external customers and to ensure that small businesses are well-represented.

5. Increase transparency in program and business decision-making, assuring that decisions are fast, results-driven, and clearly understandable to large and small partners.

6. Ensure accountability and compliance with the letter and spirit of all applicable laws and regulations to achieve a clean audit opinion, deter legal disputes and acquire a sterling reputation for sound management

7. Deliver programs smarter, faster, better, and cheaper, continuously improving USAID's performance as a global "thought leader" and as the world's most effective delivery organization of economic and humanitarian assistance

PEOPLE: STRATEGIC MANAGEMENT OF HUMAN CAPITAL

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

FY 2004 Achievements

- The BTEC approved a five-year USAID Human Capital Strategic Plan 2004-2008 to address the Agency's most critical workforce and competency gaps. To rebuild the Agency's human capital to meet global development, conflict, and humanitarian challenges, the plan's strategic objectives are a high performing workforce achieved, staff strategically aligned with Agency priorities, a more flexible workforce established, a diverse workforce created, and increased HR capacity to support USAID's mission.

- Initiated preliminary activities to conduct the first comprehensive workforce analysis in the Agency's history. This analysis will help to determine staffing levels needed to meet program demands, identify gaps in skills and staffing levels, and create a plan to close the gaps. As a result of this work, USAID plans to implement a permanent workforce analysis and planning system during the second quarter of FY 2005.

- An Overseas Staffing Template was developed for allocating overseas staff that is integrated with the Agency's strategic planning and budgeting process. Applying this template, Agency management is repositioning the overseas Foreign Service workforce—700 full-time staff—to address critical staffing gaps in the Asia and Near East region.

- The Agency completed the first year of the Development Readiness Initiative (DRI) which is actively recruiting staff through several hiring mechanisms. Foreign Service career programs include the International Development Intern (IDI) program and the New Employee Professional (NEP) program. The Agency reinstated the Contract Specialist Intern Program (CSIP) and expanded the use of Presidential Management Fellows (PMF) to fill critical skill gaps in its procurement staff and other Washington-based Civil Service positions respectively.

- Eighty-five candidates were selected for five-year appointments through non-career, limited-term appointments in the first year of a congressionally authorized program that allows the Agency to convert 250 personal services contractors through the end of FY 2006. This new authority will help fill the overseas positions that typically remain unfilled at the end of each Foreign Service assignment cycle due to a lack of qualified staff. The new authority will also assist in providing a surge capacity to respond to global emergencies and new strategic priorities.

- Leadership and procurement training has been enhanced: nearly 300 employees received executive and senior leadership training, nearly 200 employees received supervisory training, and over 500 employees received cognizant technical officer (CTO) certification training. Employees have completed nearly 1000 courses online through the Agency's "e-Learning Institute." Accounting, marketing, management, communications, and other subjects are taught through text presentations, simulations, and chat rooms. The self-paced, self-taught courses are a cost-efficient alternative to instructor-led courses and resulted in approximately more than $200,000 in cost savings for USAID in FY 2004. These savings will continue to grow rapidly as more advanced level Agency courses require distance-learning courses as prerequisites, and as more and more employees learn to access this relatively new training medium.

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

- Restructure the Agency's strategic planning processes to be more responsive to U.S. foreign policy, externally driven directives and initiatives, Agency and Regional strategic priorities, etc.

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

Next Steps

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

TECHNOLOGY: BUSINESS SYSTEMS MODERNIZATION

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

FY 2004 Achievements:

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

Next Steps

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

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

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

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

USAID will also:

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

IDEAS: KNOWLEDGE FOR DEVELOPMENT

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

FY 2004 Achievements:

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

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

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

Next Steps

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

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

RESULTS: STRATEGIC BUDGETING

Building on the goals of the PMA for budget and performance integration, USAID's strategic budgeting transformation initiative's goal is to improve the Agency's strategic planning and resource allocation. Growing global complexities, instability, and insecurity that arise from terrorist, transnational crime, failing states, and global diseases underscore the need to use U.S. foreign assistance resources effectively. Three strategic planning tools inform this initiative: Strategic Budgeting Model, PART and Overseas Staffing Template.

FY 2004 Achievements:

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

Next Steps

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

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

The President's Management Agenda

"What matters most is performance and results. In the long term, there are few items more urgent than ensuring that the federal government is well run and results-oriented. This Administration is dedicated to ensuring that the resources entrusted to the federal government are well managed and wisely used. We owe that to the American people."

– President George W. Bush

USAID has made significant progress in its business transformation and this has been reflected in the Agency's scores on each of the five government-wide initiatives in the President's Management Agenda (PMA). Issued quarterly by the OMB, an Executive scorecard rates progress and overall status in each of the PMA initiatives using a color-coded system that is based on criteria that are used by all federal agencies. As of September 30, 2004, USAID achieved three "green" scores and two "yellow" scores for progress in achieving the OMB-developed, government-wide criteria and remains "red" in status for three of the five initiatives. Since March 2004, the Agency has maintained "yellow" status scores for Expanded e-Government and Budget and Performance Integration. For the PMA agency-specific Faith-Based and Community Initiative, USAID received "green" for progress and "red" for status. The following is a summary of USAID's overall progress towards achieving the goals of the PMA during FY 2004. The progress and status scores below are as of September 30, 2004.

PROGRESS	USAID STRATEGIC MANAGEMENT OF HUMAN CAPITAL	STATUS

Goal

Build, sustain, and deploy effectively a skilled, knowledgeable, diverse, and high-performing workforce aligned with strategic objectives.

Progress

- Finalized the five-year Human Capital Strategic Plan that lays out plans to address workforce issues in the coming years.
- Hired 85 limited term Foreign Service officers in first year of three-year, congressionally authorized recruitment program.
- Implemented the first year of the three-year DRI.
- Conducted a study to incorporate affirmative employment goals into recruitment strategies and designed strategies to address underrepresentation.
- Revised Senior Foreign Service promotion precepts policy and related regulations and guidance.
- Completed an Agency Business Model Review (BMR) and recommended consolidating administrative functions in regional service centers to further rationalize staffing and to streamline overseas operations.
- Developed and implemented a Succession Planning Strategy to address critical skills gaps.
- Completed and implemented the human capital accountability system; completed and analyzed the baseline data for performance metrics.
- Began the development of a comprehensive workforce analysis and workforce planning process; collected and utilized initial mission critical workforce planning data; and began identifying and addressing gaps in mission critical occupations and competencies.

Continued on next page

PROGRESS	USAID STRATEGIC MANAGEMENT OF HUMAN CAPITAL *Continued*	STATUS

Upcoming Action

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

PROGRESS	IMPROVED FINANCIAL PERFORMANCE	STATUS

Goal

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

Progress

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

Upcoming Action

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

PROGRESS	BUDGET AND PERFORMANCE INTEGRATION	STATUS

Goal

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

Progress

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

Upcoming Action

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

PROGRESS	COMPETITIVE SOURCING	STATUS

Goal

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

Progress

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

Upcoming Action

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

PROGRESS	EXPANDED ELECTRONIC GOVERNMENT	STATUS

Goal

Expand the federal government's use of electronic technologies (such as e-Clearance, Grants.gov, and e-Regulation), so that Americans can receive high-quality government service, reduce the expense and difficulty of doing business with the government, cut government operating costs, and make government more transparent and accountable.

Progress

- In March 2004, improved status score from "red" to "yellow" as a result of activities to establish an Enterprise Architecture (EA). First component of the EA identified HIV/AIDS new technology and policy initiatives and provided the foundation for developing an Executive Information Systems (EIS) prototype to support reporting requirements under the President's Emergency Plan for AIDS Relief (PEPFAR).
- Completed implementation plan for joint EA with Department of State and completed joint EA business case.
- Completed select, control and evaluation process for FY 2006 business cases per Agency's Capital Planning and Investment Control (CPIC) policies.
- Completed certification and accreditation for major IT systems. The Office of Inspector General (OIG) verified that 100 percent of the Agency's operational IT systems are secure.

E-Gov Initiatives:

- Completed migration plan for e-Travel.
- Finalized e-Gov Memorandum of Understanding (MOU) with GSA for Integrated Acquisition Environment (IAE).
- Completed draft Migration Plan for e-Grants with the Department of Health and Human Services (DHHS).
- Completed draft Migration Plan for e-Clearance in collaboration with State.
- Completed E-Authentication risk assessments on all systems.

Upcoming Action

- Complete joint State-USAID award of contract to manage e-Travel.
- Complete pilot for e-Clearance.
- Complete pilot for e-Grant.
- Develop detailed Earned Value Measurement Implementation Plan and Alternatives Analysis.
- Develop a joint EA repository.
- Produce in collaboration with State a subset of EA dealing with telecommunications and security.

PROGRESS	FAITH BASED AND COMMUNITY INITIATIVE	STATUS

Goal

Enhance opportunities for faith-based and community organizations (FBCOs) to compete for federal funding, monitor compliance with equal treatment regulations in addition to identifying barriers to the equal participation of FBCOs in agency programs, collect data on the participation of FBCOs in agency programs, and implement and evaluate demonstration programs where FBCOs participate.

Progress

- Coordinated outreach and technical assistance to FBCOs.
- Began to collect and evaluate data on the participation of FBCOs in USAID programs.
- Developed and expanded FBCI web page to include information about funding opportunities and technical assistance.
- Published a Federal Register regulation on the participation of religious organizations in USAID programs.
- Initiated online registration for FBCOs in order to provide outreach and technical assistance.
- Implemented three demonstration programs.

Upcoming Action

- Implement a comprehensive outreach and technical assistance strategy.
- Evaluate existing demonstration programs.
- Implement remaining demonstration projects.
- Complete FY 2004 annual report summarizing activities and barriers removed.
- Begin action plan to identify and remove additional barriers (if any) to FBCOs in compliance with published regulation.
- Implement education strategy on new regulation.

Program Assessment Rating Tool (PART) Status

PROGRAM ASSESSMENT RATING TOOL (PART) STATUS AT USAID

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

TABLE I: STATUS OF AGENCY PARTS

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

FY 2004 Part Programs

STRATEGIC GOAL 4/5	DEMOCRACY AND HUMAN RIGHTS/ECONOMIC PROSPERITY AND SECURITY
Program Name	**USAID Development Assistance - Population**
Rating	◆ Calendar Year (CY) 2002: Moderately Effective
Lead Bureau	◆ Agency for International Development - Global Health (GH)
Major Findings/ Recommendations	◆ The program has been highly effective in increasing contraceptive use in assisted countries. ◆ The program does not allocate resources across regions and countries in an optimal way to respond to highest need. ◆ The program should continue to provide resources at the FY 2003 level, and take steps to better align resource allocations with country needs through new performance budgeting efforts.
Actions Taken/Planned	◆ Strategic resource allocation model for this sector has been developed. Application of this need-based approach resulted in a $30 million resource shift to high-need countries in 2004: based on measures of demand for family planning services, levels of fertility and mortality, and population density. The approach continues to be refined and will be applied in 2005 allocations.
STRATEGIC GOAL 6	**USAID SOCIAL AND ENVIRONMENTAL ISSUES**
Program Name	**Global Climate Change (GCC)**
Rating	◆ CY 2002: Adequate
Lead Bureau	◆ Agency for International Development - Economic Growth, Agriculture, and Trade (EGAT)
Major Findings/ Recommendations	◆ The program is managed well. The real issue for the program is redefining its role in foreign policy. ◆ Only one of the program's performance measures is measurable and has a cumulative target linked to an outcome. The program would benefit from improved measures.
Actions Taken/Planned	◆ The GCC program is in the process of developing a new strategy to update its goals. ◆ The GCC program is improving measurability by developing methodologies to measure carbon sequestration (awarded cooperative agreement 9/03 to NGO with expertise in carbon measurement). ◆ The GCC program reflects Administration's priorities by actively participating in bilateral climate change discussions with State Department, and is a member of the negotiating team in international climate change negotiations.

STRATEGIC GOAL 7	HUMANITARIAN RESPONSE
Program Name	**USAID Public Law 480 Title II Food Aid**
Rating	◆ CY 2002: Adequate
Lead Bureau	◆ Agency for International Development - Democracy, Conflict, and Humanitarian Assistance (DCHA)
Major Findings/ Recommendations	◆ Overall changes in the well being of hungry people are difficult to measure. ◆ Emergency food aid, which provides food to prevent or reduce discrete and protracted famines, has demonstrated adequate progress. ◆ The program would be more cost-effective if several congressional mandates were eliminated, such as cargo preference requirements.
Actions Taken/Planned	◆ Development of a Food for Peace Office of Strategic Plan provides indicators that will better measure the well being of those receiving food aid. ◆ Working closely with the Department of Transportation, U.S. Department of Agriculture (USDA), and others, USAID aggressively is pursuing ways to strike a balance in relief of cargo preferences and purchase of minimal tonnage of food aid requirements and other congressional mandates.

FY 2005 Part Programs

STRATEGIC GOAL 1	REGIONAL STABILITY
Program Name	**USAID Transition Initiatives**
Rating	◆ CY 2003: Moderately Effective
Lead Bureau	◆ Agency for International Development - DCHA/Office of Transition Initiatives (OTI)
Major Findings/ Recommendations	◆ The assessment found that the program is strong overall. ◆ OTI's performance measurement is strong at the individual program/country level, but there is no aggregate measurement of OTI's effectiveness across the board. ◆ USAID will closely monitor the development of OTI's short and long-term baselines, timeframes, and targets to ensure their timely completion.
Actions Taken/Planned	◆ Currently working to put systems in place to aggregately measure OTI's effectiveness. ◆ Developing a system to ensure timely completion of OTI's monitoring process at the mission level.

STRATEGIC GOAL 4/5	DEMOCRACY AND HUMAN RIGHTS/ECONOMIC PROSPERITY AND SECURITY
Program Name	**USAID Child Survival and Health – LAC Region**
Rating	◆ CY 2003: Results Not Demonstrated ◆ CY 2004: Moderately Effectively
Lead Bureau	◆ Agency for International Development - LAC Bureau
Major Findings/ Recommendations	◆ The program is closely aligned with U.S. foreign policy priorities in the region. ◆ The program cannot adequately demonstrate progress in achieving results due to the lack of LAC regional performance measures and targets. At the country, or operating unit level, however, targets are, with few exceptions, being met or exceeded.
Actions Taken/Planned	◆ LAC has implement a system of regional common performance indicators that will facilitate the setting of ambitious annual and long-term performance targets, the measurement of results, and an annual budgeting process that is directly integrated with performance.
STRATEGIC GOAL 4/5	**DEMOCRACY AND HUMAN RIGHTS/ECONOMIC PROSPERITY AND SECURITY**
Program Name	**USAID Development Assistance – LAC Region**
Rating	◆ CY 2003: Results Not Demonstrated ◆ CY 2004: Moderately Effective
Lead Bureau	◆ Agency for International Development - LAC Bureau
Major Findings/ Recommendations	◆ The program is closely aligned with U.S. foreign policy priorities in the region. ◆ The program cannot adequately demonstrate progress in achieving results due to the lack of LAC regional performance measures and targets. At the country, or operating unit level, however, targets are, with few exceptions, being met or exceeded.
Actions Taken/Planned	◆ LAC has implement a system of regional common performance indicators that will facilitate the setting of ambitious annual and long-term performance targets, the measurement of results, and an annual budgeting process that is directly integrated with performance.

FY 2006 Part Programs

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

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

Management Challenges

In pursuit of its mission, USAID faces a number of issues, known as Major Management Challenges. This section identifies those challenges and high-risk areas cited by the Government Accountability Office (GAO) and USAID's Office of Inspector General (OIG), and the continuing efforts by USAID to address them.

FINANCIAL MANAGEMENT	
Challenge	**Reporting Expenses Associated with USAID Goals**
Findings	USAID's methodology for assigning strategic objective costs to goals needs improvement.
Actions Taken	◆ Obtained annual certifications from responsible offices showing that their strategic objectives are properly assigned to the appropriate Agency goals. ◆ Implemented policy requiring that all strategic objectives be assigned to an Agency goal. ◆ Developed separate allocation methodologies for strategic objectives that must be allocated to more than one Agency goal.
Challenge	**Estimating Accrued Expenditures**
Findings	The OIG identified cases where accrual estimates were not supported or were calculated incorrectly.
Actions Taken	◆ Established and implemented procedures to obtain Cognizant Technical Officer (CTO) information whenever personnel changes affect the information recorded in the Accrual Reporting System (ARS). ◆ Established and implemented procedures to evaluate the reliability of the ARS by performing quarterly reviews. ◆ Established and implemented procedures to compile and maintain quarterly analytical information on the number and amount of modified and system-generated accruals certified in the ARS by USAID's CTOs – by USAID Bureau – to assist in planning follow-up reviews of ARS information. ◆ Additional training will be provided to enhance accrual estimates and supporting documentation.
Challenge	**Recognizing and Reporting Accounts Receivable**
Findings	USAID has taken steps to establish policies and procedures to account for worldwide accounts receivable. However, USAID does not have an integrated financial management system that would facilitate the recognition of accounts receivable when amounts become due to USAID. Instead, USAID relies on a separate data collection tool to gather information on accounts receivable at year end to facilitate preparation of USAID's financial statements..
Actions Taken	Worldwide deployment of the financial system will eliminate this challenge. In the interim, the Agency has established policies and procedures to account for worldwide accounts receivable and will continue to rely on the separate data collection tool.
Challenge	**Reconciling Financial Management Information**
Findings	USAID has made progress in reconciling its fund balance with the U.S. Treasury by establishing a Cash Reconciliation Working Group. This group is focusing its attention on (1) consistently performing monthly and cumulative reconciliation processes, (2) developing methods to monitor unreconciled items, and (3) developing clear instructions and procedures for processing reconciling items. In addition, USAID has developed some guidance that will help USAID accounting stations avoid certain timing differences and other conditions that produce unreconciled items. Nevertheless, USAID continues to record significant unsupported adjustments to its year-end balance with Treasury to bring this amount into agreement with the Department of Treasury's accounts. USAID also needs to reconcile significant differences with its federal trading partners. As of September 30, 2004, the Department of Treasury's Financial Management Service reported $10.4 billion in unreconciled differences between amounts reported by USAID and other federal agencies.
Actions Taken	USAID will continue its work to strengthen operational procedures in this area.

INFORMATION RESOURCE MANAGEMENT	
Challenge	**Improving Information Resource Management Processes**
Findings	The OIG and other organizations have identified organizational and management deficiencies in USAID's information resource management processes. For example, the Clinger-Cohen Act of 1996 requires 1) procedures to select, manage, and evaluate investments; and 2) a means for senior managers to monitor progress in terms of costs, system capabilities, timeliness, and quality. Although USAID has made progress in improving the above processes, it needs to continue its efforts in this area.
Actions Taken	Refer to the corresponding FMFIA material weakness for a discussion of the actions taken.
Challenge	**Improving Computer Security**
Findings	USAID has taken significant actions to improve its computer security; however, USAID continues to have computer security weaknesses. For example, USAID did not always: ◆ Keep logs of security violations for USAID's Acquisition and Assistance system. ◆ Limit unsuccessful log-on attempts to three. ◆ Terminate user accounts after employees left USAID. ◆ Configure systems to eliminate high-risk vulnerabilities. ◆ Use strong passwords. ◆ Implement effective controls over dial-up access to its systems. Although USAID has developed an information security training program, all key information security employees have not obtained the needed training. Further, under the current organizational structure, USAID's Information Systems Security Officer does not have the authority to enforce training requirements.
Actions Taken	Refer to the corresponding FMFIA material weakness for a discussion of accomplishments, which allowed this weakness to be closed during FY 2004.
OTHER MANAGEMENT CHALLENGES	
Challenge	**Managing for Results**
Findings	The Government Performance and Results Act of 1993 (GPRA), requires that agencies establish strategic and annual plans, set annual targets, track progress, and measure results. In addition, government-wide initiatives, such as the PMA, require that agencies link their performance results to budget and human capital requirements. A significant element of USAID's performance management system is the Annual Report prepared by each of its operating units. These reports provide information on the results attained with USAID resources, request additional resources, and explain the use of and results expected from these additional resources. Information in these unit-level Annual Reports is consolidated to present a USAID-wide picture of achievements in USAID's PAR. The OIG continues to monitor USAID's progress in improving its performance management system. While USAID has made improvements, more remains to be done. For example, the OIG reported that performance information included in the FY 2003 PAR did not contain a clear picture of USAID's planned and actual program performance for that year. As a result, the statements did not adequately link costs to results for FY 2003.
Actions Taken	◆ USAID developed a new approach to development assistance (i.e., White Paper) that more directly links budgeting to specific operational goals. ◆ USAID conducted a Business Model Review of its strategic planning processes and drafted interim guidance for implementing recommendations to increase the efficiency of strategic management. ◆ USAID closed three FY 2003 GMRA audit recommendations related to linking the operating units' strategic objectives to Agency goals for the tracking of costs in the Statement of Net Costs. ◆ The FY 2004 PAR uses USAID's new strategic planning framework and goal structure, following the new Joint USAID/State Department Strategic Plan.

Continued on next page

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

Management Controls, Systems, and Compliance with Laws and Regulations

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT (FMFIA)

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

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

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

MANAGEMENT CONTROL PROGRAM

The Management Control Review Committee (MCRC) oversees the Agency's Management Control Program. The MCRC is chaired by the Deputy Administrator, and is composed of senior-level managers, including the ten Bureau Assistant Administrators (AA), the CFO, the Chief Information Officer (CIO), General Counsel, IG (non-voting), Executive Secretariat, Procurement Executive, Independent Office Directors, and Management Bureau Office Directors. Individual annual certification statements from Mission Directors located overseas and AAs in Washington, D.C., serve as the primary basis for the Agency's certification that management controls are adequate or that material weaknesses exist. The certification statements are based on information gathered from various sources including the managers' personal knowledge of day-to-day operations and existing controls, management program reviews, and other management-initiated evaluations. In addition, the OIG and the GAO conduct reviews, audits, inspections, and investigations.

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

FMFIA Material Weakness Criteria

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

STATUS OF MANAGEMENT CONTROLS

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

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

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

1. The Agency completely revised its Information Systems Security Program Plan and implemented it throughout the Agency.

2. The Agency received a full Certification and Accreditation (March 31, 2003) on its General Support System (GSS), which is USAID's core network infrastructure.

3. The Agency implemented a security training program which reinforces IT security practices daily. The Security Tips of the Day program provides timely security reminders to system users each day they log in.

4. The Agency documented and completely identified its critical and sensitive systems.

5. Information Systems Security Officers have been appointed by the systems owners for each of the systems and major applications as well as for each mission subnet.

6. The Agency has established security plans for each system.

7. On a monthly basis, the Agency scans its entire network for potential vulnerabilities and reports on the risk status.

8. The Agency has installed firewalls at all missions that are centrally controlled for added security.

9. The Agency completed the Windows 2000 rollout of servers and Washington has begun managing each mission's domain controllers. This will decrease the variability of worldwide operations and ensure better security for the network.

10. The Agency established a "locked" down standard desktop under Windows 2000, centrally refreshes security policies daily, and centrally manages changes. This allows security features for the network to be enforced globally and increases security.

11. Anti-virus update signatures are being done weekly or more often if needed as a means to keep viruses and malicious code from infecting the Agency's network.

12. The Agency deployed six devices as part of an intrusion detection system and added improved tools for correlating events.

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

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

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

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

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

During FY 2003, as a result of the Agency global reorganization, 252,000 historical records were migrated into the new Agency organizational structure. The financial systems team deployed enhanced and new reports, including a prototype consolidated flash report that reports data at the operating unit level; a consolidated pipeline report that includes strategic objective level details Agency-wide; an Agency-wide pipeline report that allows users to download and tailor document level obligation data; the Budget Spending Summary Report; and the Accruals Status Report. The Phoenix security team completed a Phoenix data sensitivity analysis, and later a MACS privacy impact/data sensitivity analysis to establish a baseline of key sensitive data elements and make recommendations to improve both user awareness and security controls. In June 2003, the Agency completed development of USAID's credit card functionality to allow the Agency to pay the Citibank statement at the beginning of each month, which enables USAID to take advantage of discounts and avoid late fees. In September 2003, the Agency piloted a web-enabled database that it uses to collect financial data from the missions.

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

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

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

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

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

The Agency implemented tactically-oriented program management and oversight practices with the formation of a Program Management Office (PMO) and the reorganization of the Management Bureau in May 2004. The PMO is responsible for monitoring the progress of IT projects and developing standards, processes, and tools for improving project management practices. PMO staff work with the functional and IT leadership team assigned to projects to provide guidance on the use of these standards, processes, and tools. The office published a risk management plan, quality control plan, project management change control guidance, and a standard set of governance tools for project management and project status reporting. It is currently working on updating the Project Management Guidebook to address the full cycle of an IT project.

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

FEDERAL INFORMATION SECURITY MANAGEMENT ACT (FISMA)

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

FMFIA SIGNIFICANT MANAGEMENT CONCERNS

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

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

Inadequate physical security in USAID's overseas buildings. USAID cannot implement appropriate actions alone to comply with federal physical security standards for all employees serving overseas. Although USAID complies with the Secure Embassy Construction and Counterterrorism Act of 1999 (SECCA) and the provisions of the implementing security standards, more needs to be done to safeguard USAID employees overseas. A recent GAO report on embassy construction indicates that following the 1998 bombings of two U.S. embassies in Africa, the State Department launched a multibillion-dollar, multi-year program to build new, secure facilities on compounds at posts around the world. The SECCA of 1999 requires that U.S. agencies, including USAID, co-locate offices within the newly constructed compounds. This report discusses how State is incorporating office space for USAID into the construction of new embassy compounds and the cost and security implications of its approach. GAO has recommended that the Secretary of State: 1) achieve concurrent construction of USAID facilities to the maximum extent possible and (2) consider, in coordination with the USAID Administrator, incorporating USAID space into single office buildings in future compounds, where appropriate. GAO also suggests that if the new cost-sharing proposal is not implemented in FY2005, the Congress may wish to consider exploring other means by which to support concurrent construction. Another recent draft GAO report indicates that State has proposed a $17.5 billion program to build secure new embassies and consulates around the world. The administration has proposed the Capital Security Cost-Sharing Program, under which all agencies with staff assigned to overseas diplomatic missions would share in construction costs. GAO has found that the proposed cost-sharing formula (based on a headcount) could result in funds to accelerate embassy construction and encourage agency rightsizing of overseas staff levels. Under the currently proposed program, State would build 150 new embassies by 2018, or 12 years sooner than the earlier projected completion date of 2030. State would pay nearly two-thirds of the annual amount needed, and non-State agencies would pay a one-third share. At the same time, USAID believes that co-location is not always practical. If USAID is required to move onto embassy compounds without adequate resources for separate non-classified facilities, this would result in the inability to co-locate with the Agency's foreign national and contractor staffs. USAID must weigh these issues carefully and determine how to proceed.

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

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

MATERIAL NONCONFORMANCE OF FINANCIAL MANAGEMENT SYSTEM

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

FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT

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

- Federal requirements for an integrated financial management system
- Applicable federal accounting standards
- U.S. Standard General Ledger at the transaction level.

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

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

FINANCIAL SYSTEMS REMEDIATION PLAN

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

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

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

Government Management Reform Act - Audited Financial Statements

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

USAID's FY 2004 financial statements received an unqualified opinion – the best possible result of the audit process. This year marks the second consecutive year that USAID's financial statements have achieved such an opinion. USAID also, for the second year in a row, significantly accelerated the preparation and audit of the FY 2004 financial statements and associated reports. This indicates important progress toward the Agency's goal of providing more timely, accurate, and useful financial information.

In relation to internal control, the Independent Auditor's Report cites one material weakness: USAID's process for reviewing and reporting its quarterly accrued expenditures and accounts payable needs improvement. A material weakness is defined as a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing assigned functions. USAID has continuously improved its status in this area, from seven material weaknesses in FY 2002 and three in FY 2003.

The audit report also names six reportable conditions, which are detailed in the table below. Reportable conditions are significant deficiencies, though not material, in the design or operation of internal control that could adversely affect the Agency's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. USAID will continue working on these issues and is pleased that the auditors have consistently acknowledged the Agency's efforts to eliminate and reduce weaknesses. The auditors are also required to report on non-compliance with laws and regulations. The current auditor's report states that USAID's financial systems continue to be non-compliant with the FFMIA.

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

SUMMARY OF INDEPENDENT AUDITOR'S REPORT FINDINGS FY 2004
(Refer to Independent Auditor's Report Section)

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

PROGRESS MADE ON ISSUES FROM FY 2003 GMRA AUDIT:

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

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

IMPROPER AND ERRONEOUS PAYMENTS

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

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

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

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

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

PURCHASE AND TRAVEL CARD USAGE

Purchase Cards

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

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

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

Travel Cards

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

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

IPIA ANALYSIS FOR GRANT/CONTRACT PROGRAMS

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

Financial Highlights

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

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

OVERVIEW OF FINANCIAL POSITION

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

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

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

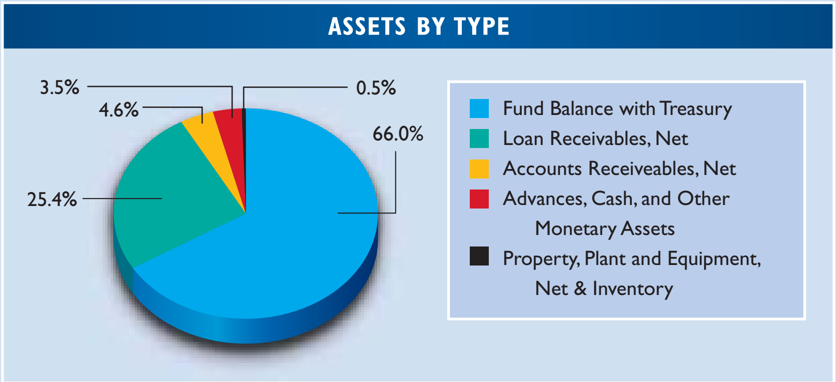
Fund Balances with Treasury and Loans Receivable, Net comprise the majority of USAID's assets. Together they account for over 90% of total assets for 2004, 2003 and 2002. USAID maintains funds with Treasury to pay its operating and program expenses. These funds increased by $1.6 billion (11.5%) and represent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

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

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

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

Chart 1: Percentage of Assets by Type, FY 2004



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

Table 2:

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

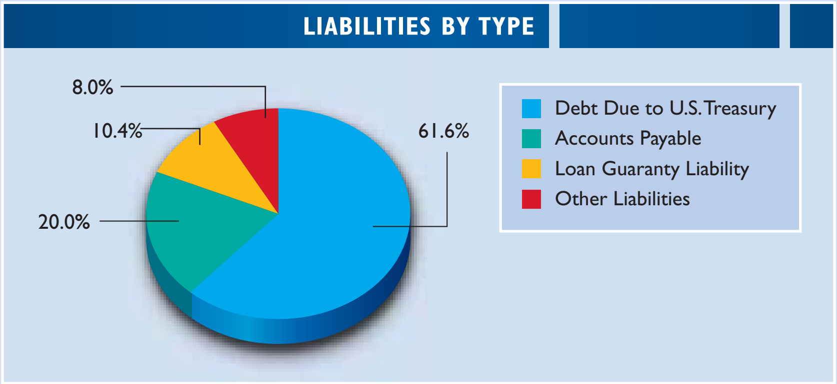
As reflected in Table 2, Credit Program Liabilities consisting mainly of Debt, amounts payable to U.S. Treasury and Loan Guaranty Liability account for most of USAID's Total Liabilities for 2004, 2003 and 2002. Debt and Due to Treasury combined represented 61.6 % of Total Liabilities for FY 2004. The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

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

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

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

Chart 2:



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

RESULTS OF OPERATIONS

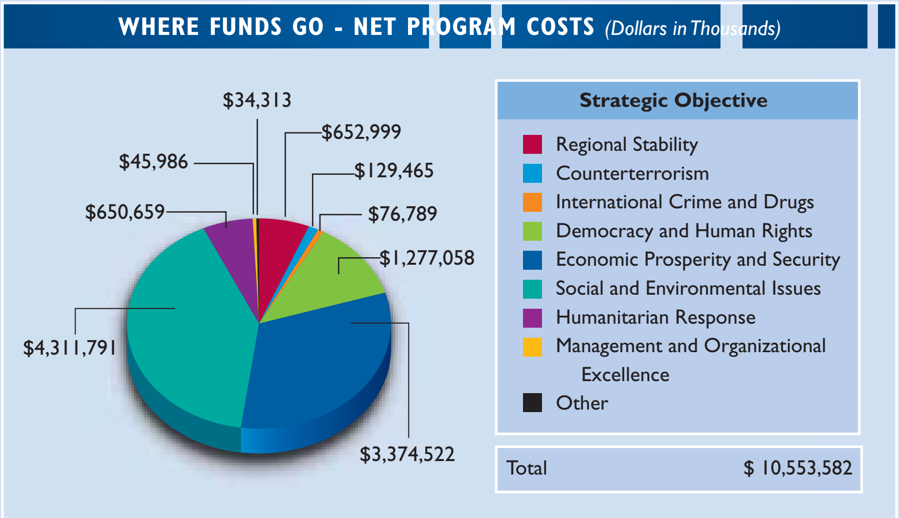
The results of operations are reported in the Consolidated Statement of Net Cost and the Consolidated Statement of Changes in Net Position.

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

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

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

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



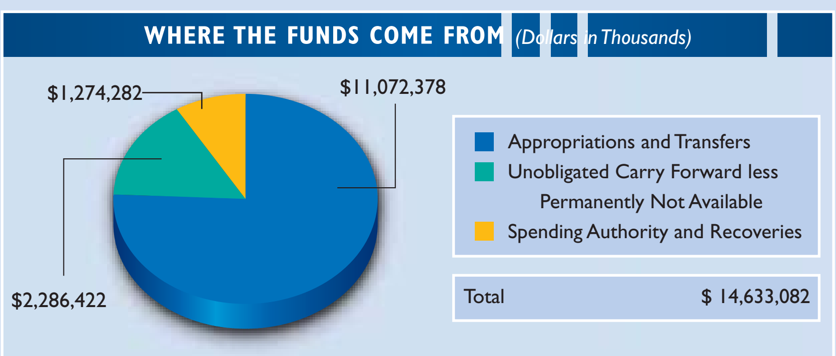
The Consolidated Statement of Changes in Net Position presents the accounting items that caused the net position section of the balance sheet to change since the beginning of the fiscal year. The statement comprises two major components: Unexpended Appropriations and Cumulative Results of Operations.

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

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

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

Chart 3 below, reflects Agency budgetary resources for 2004.



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

LIMITATIONS TO THE FINANCIAL STATEMENTS

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

USAID History

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

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

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

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

USAID's Role in the Millennium Challenge Corporation

The Millennium Challenge Account (MCA), President Bush's "new compact for global development", provides additional foreign assistance funding to poor countries that rule justly, invest in their people, and encourage economic freedom. The MCA is administered by the Millennium Challenge Corporation (MCC), an independent governmental corporation, and initial MCA funds of $1 billion were made available in FY 2004. The USAID Administrator serves as a member of the MCC Board, which approves MCA compacts with eligible countries, and USAID has developed a strong working relationship with the MCC. USAID and MCC are working collaboratively to ensure that their respective programs are complementary.

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

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

Little Known Facts About the U.S Agency for International Development

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

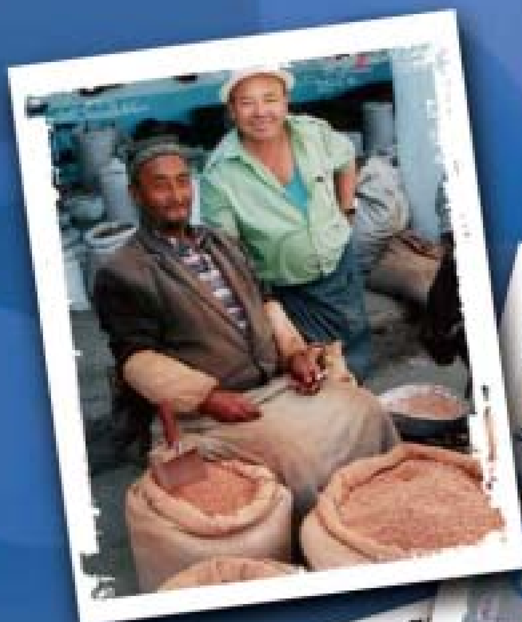
- More than three million lives are saved every year through USAID immunization programs.
- Eighty thousand people and $1 billion in U.S. and Filipino assets were saved due to early warning equipment installed by USAID that warned that the Mount Pinatubo volcano was about to erupt in 1991.
- Oral rehydration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

Continued on next page

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

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

Performance Section



Introduction to the FY 2004 Performance Section

The Performance Section of the report is composed of chapters for each of USAID's eight fiscal year (FY) 2004 strategic goals organized by the following six sub-sections:

SUB-SECTIONS USED FOR STRATEGIC GOAL PERFORMANCE ANALYSIS	
Sub-Section	**Purpose and Explanation**
I. Public Benefit	A concise narrative describing how pursuit of the goal provides intended benefits (or harm avoided) for the United States and the world.
II. Selected Performance Trends	Graphs that show key performance trends specific to each goal.
III. Resources Invested	A summary of resources (net costs) devoted to pursuit of the goal for both the current reporting period (FY 2004) and the previous reporting period (FY 2003), including the positive or negative percentage change for comparison purposes. The number of direct funded positions (USAID employees) associated with the strategic goal is also provided.
IV. Illustrative Examples	An example of a key FY 2004 achievement that is typical of the Agency's work in support of the goal.
V. Performance Results	Results history/trend together with, if available, preliminary FY 2004 performance results, the current rating, and a short impact statement pertaining to each of the available FY 2004 results achieved. For any FY 2004 performance result listed as preliminary, the final validated/verified performance data for that target/indicator set will be provided in the FY 2004 Performance and Accountability Report (PAR) Addendum, to be published by USAID in March 2005.
VI. Program Evaluations and PART Reviews	Summaries of evaluations and reviews conducted on the programs critical to activities related to a given strategic goal.

The table below shows the percentage of results attained that were equal to or above the "on target" rating for each strategic goal. The greater the percentage of results equal to or greater than the on target rating, the better. Goals in the FY 2003 column containing an asterisk (*) do not have percentages listed as they are new goals with no prior-year results associated with them.

PERCENTAGE OF RESULTS EQUAL TO OR ABOVE THE "ON TARGET" RATING			
Strategic Goal *(Number of FY 2004 Reported Results)*	**FY 2004[1]**	**FY 2003**	**Percentage Point Change**
1. Regional Stability	TBD	91%	TBD
2. Counterterrorism	TBD	N/A*	TBD
3. International Crime and Drugs	TBD	100%	TBD
4. Democracy and Human Rights	TBD	93%	TBD
5. Economic Prosperity and Security	TBD	80.5%	TBD
6. Social and Environmental Issues	TBD	84.8%	TBD
7. Humanitarian Response	TBD	90%	TBD
8. Management and Organizational Excellence	TBD	N/A*	TBD

[1] TBD – Based on the preliminary results data for FY 2004 contained in this report, any attempt to provide a valid percentage of results equal to or above the "on target" rating would be misleading and statistically inaccurate. This data will be available and published in the March 2005 PAR Addendum.

BACKGROUND – UNDERSTANDING THE EVOLUTION OF OUR STRATEGIC PLANNING STRUCTURE

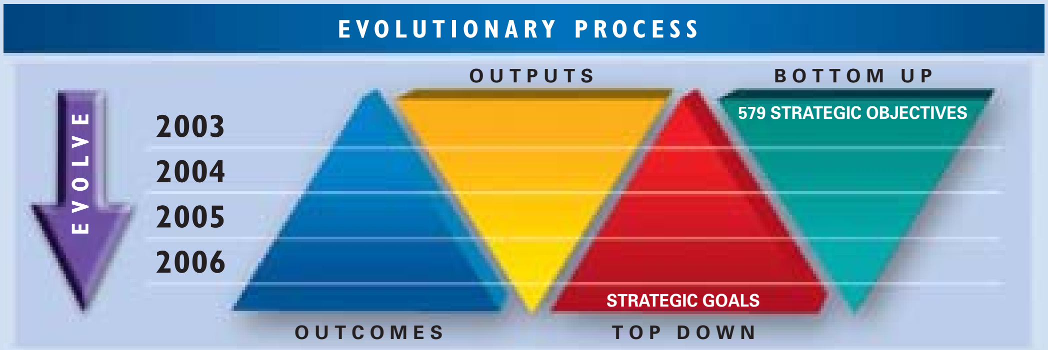
As referenced in the Management's Discussion and Analysis (MD&A) section of the FY 2003 PAR (http://www.usaid.gov/policy/par03), FY 2003 was the final year to be associated with the USAID 2000 Strategic Plan. Beginning in FY 2004, the Department of State and USAID Joint State-USAID Strategic Plan for FY 2004-2009 will be the basis for performance and accountability reporting in accordance with the Government Performance and Results Act of 1993 (GPRA).

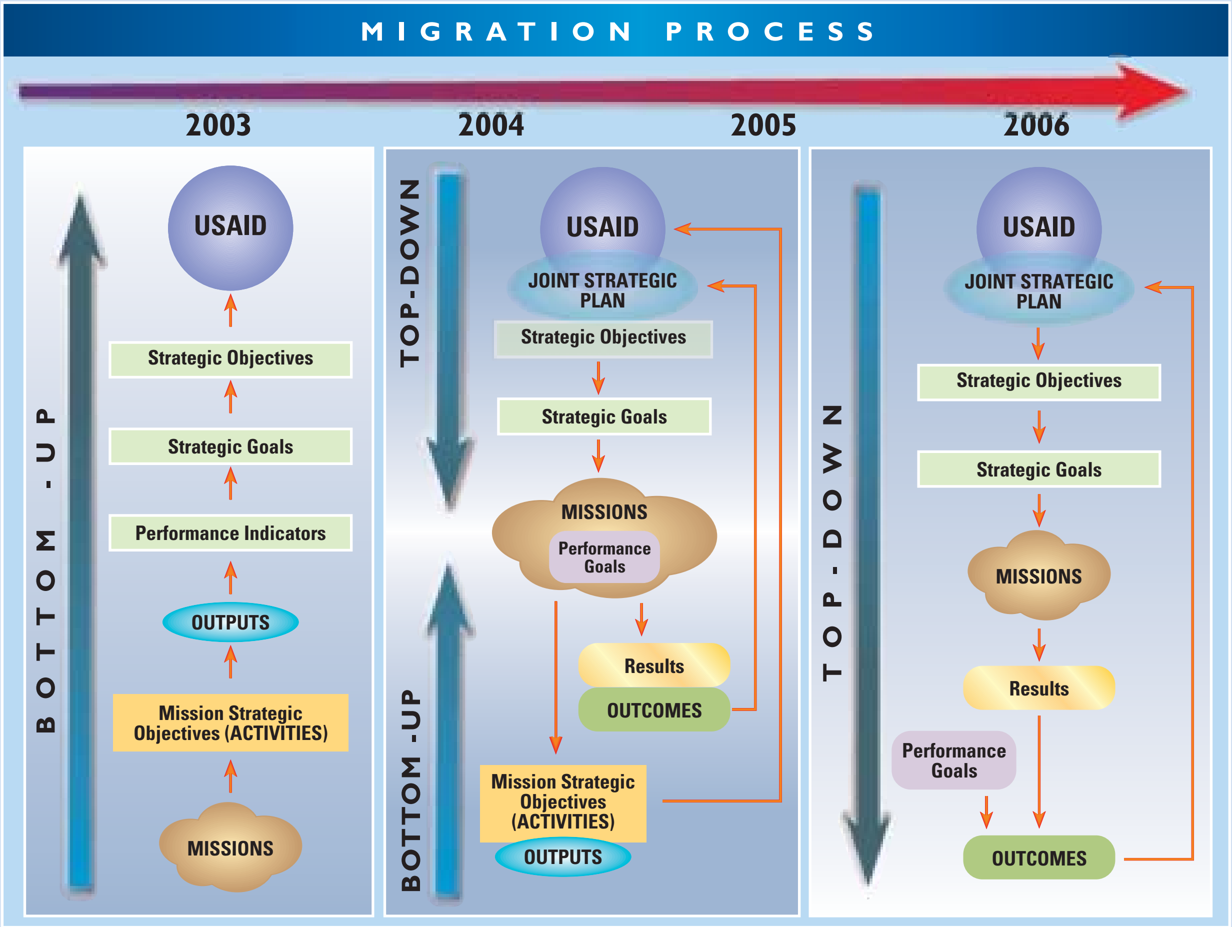
The six strategic goals and one management goal in the 2000 Strategic Plan have been superseded by the three strategic objectives and eight strategic goals of the Joint State-USAID Strategic Plan relevant to USAID, to more closely coordinate the activities of diplomacy and development. The relevance of foreign development in support of the U.S. national interest has never been stronger, and the merging of the strategic objectives and goals of USAID and the Department of State provides for greater continuity of the message, administration of the effort, and measurement of the results of foreign aid and diplomacy.

A structural shift of this magnitude is not without its challenges. Organizationally, USAID is in the midst of an evolutionary process, from a structure of decentralized goals and activities to a culture of results-oriented, centralized administration and performance of activities in support of common goals and outcomes. This refocusing on outcomes, rather than on outputs, will contribute to a culture of stronger accountability for performance results, and ultimately, greater benefit to the American people and the nations of the world where USAID operates. This will be an evolutionary process as the various geographically dispersed USAID missions adopt and employ this process between FY 2004 and FY 2006.

Also critical to this evolutionary process is the full integration of the annual performance plans (APP) to the reporting requirements established each year by the Office of Management and Budget (OMB) for the PAR. USAID has recognized the opportunities for improvement from the FY 2003 report, and is currently performing the migration process to improve the quality of all aspects of performance planning and reporting.

The migration from the 2003 baseline to the 2006 standard is an evolution process, and will involve a phased shift from the previous structure over the course of several years. During this phase, the Mission-driven initiatives will be incorporated into the Joint Planning process to validate continuity with strategic goals and strategic objectives, but there is an onus to associate the Mission's goals with the Joint Performance Plan, rather than vice versa.





As a result of the adoption of the Joint State-USAID Strategic Plan and Joint Performance Plan structures, there are no contiguous strategic and performance goals between 2003 and 2004; however, activities at the indicator and target level are able to be associated with the broader 2003 strategic objectives. Although none of the indicators are contiguous between the 2003 PAR and the 2006 Joint Performance Plan, 61 of 63 indicators are contiguous between 2004 and 2005 and 100 percent between 2005 and 2006.

To facilitate the evolutionary process described above, USAID carefully examined its reporting capabilities in light of the accelerated deadline for publishing the annual PAR for FY 2004. The decision was reached to report as much provisional or preliminary FY 2004 performance results information as possible to meet the November 15th reporting deadline, clearly identify the results information as provisional and preliminary, and publish an Addendum to the PAR after the Annual Report data has been received, analyzed, and made available on an Agency-wide basis. In every case where data has been estimated for the FY 2004 Results column, the method employed for data estimation by USAID's professional analysis is described in detail in Appendix C (i.e., expert opinion, historical trends, extrapolation, or sampling and statistics). In furtherance of this strategy, USAID will publish a FY 2004 PAR Addendum in March 2005, which will contain all final, validated performance results for the Agency's FY 2004 targets and indicators. All recipients of the November 15th version of the FY 2004 USAID PAR will also receive a printed copy of the FY 2004 PAR Addendum, and it will also be available electronically on USAID's main Web site.

STRATEGIC OBJECTIVE #1: ACHIEVE PEACE AND SECURITY

The following are the strategic goals that comprise this strategic objective:

- Strategic Goal 1: Regional Stability
- Strategic Goal 2: Counterterrorism
- Strategic Goal 3: International Crime and Drugs

Each of these USAID Strategic Goals that support the "Achieve Peace and Security" Strategic Objective from the Joint State-USAID Strategic Plan will be discussed separately below, in the context of the strategic goal, performance goals, indicators, and targets which support overall accomplishment of the strategic objective.

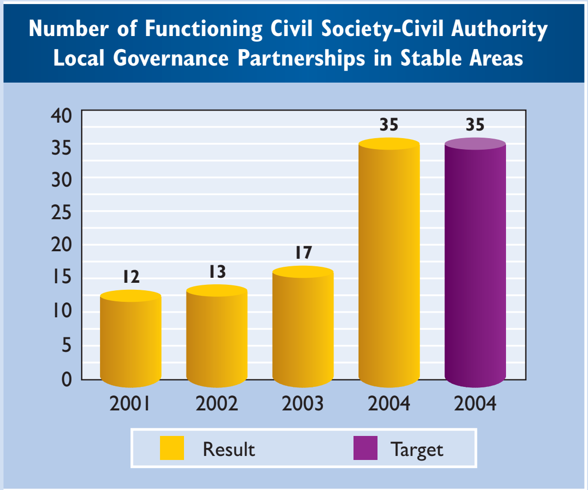
STRATEGIC GOAL 1: REGIONAL STABILITY

Avert and Resolve Local and Regional Conflicts to Preserve Peace and Minimize Harm to the National Interests of the United States

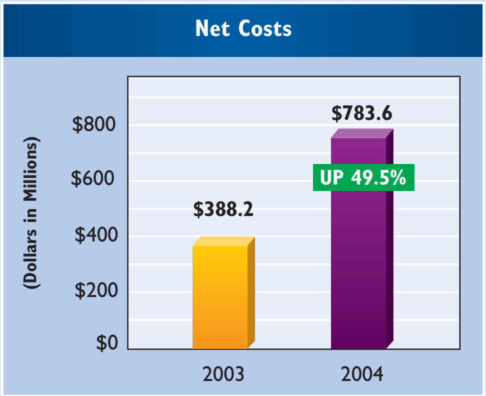
I. PUBLIC BENEFIT

The United States must provide for the safety of Americans at home and abroad, protect against threats to its interests worldwide, and honor commitments to its allies and friends. The activities of USAID are cost-effective means for enhancing and ensuring stability in all regions of the world through understanding, addressing, and responding early to the causes and consequences of violent conflict. Through development assistance, USAID builds and strengthens relations with neighbors and allies worldwide by promoting peaceful regional environments and by educating foreign audiences in ways that can prevent, manage, and mitigate conflicts, and foster cooperative efforts. The benefits to the United States are greatest when the world is safer and more stable. Early action to address failing, failed, and recovering states, or "fragile states," is central to promoting regional stability and addressing the source of the nation's most pressing security threats. Factors that contribute to fragility and regional instability include, but are not limited to, economic and political instability; health crises; the illegal trade in toxic chemicals and dumping of hazardous wastes; corruption; violent ethnic conflict; influence of neighboring country interests; population movements; landmine contamination; exploitation of natural resources; proliferation of small arms and light weapons; trafficking in persons; the trade of illegal conflict diamonds; natural disasters; and systemic, state-sponsored denial of political and legal rights. USAID advances U.S. national security interests through the resolution of regional instability, so that Americans, at home and abroad, are safe from violence.

II. SELECTED PERFORMANCE TRENDS



III. RESOURCES INVESTED



IV. ILLUSTRATIVE EXAMPLE OF SIGNIFICANT ACHIEVEMENT

Burundi

USAID provided $500,000 in FY 2003 and an additional $1 million in FY 2004 while leveraging $500,000 from Bureau for Africa (AFR) to program activities to mitigate land-related conflict. These activities seek to address both transitional issues, particularly those related to the most immediate threats and development objectives once the transitional period ends. The land issue is addressed in two ways: first by creating "breathing room" within which a participatory dialogue on land and resettlement can take place as developing policies related to land are a longer term process, and second, to create livelihood and food security opportunities to stimulate economic development. In addition, since over two-thirds of Burundians are practicing Catholics, the Office of Conflict Management and Mitigation (CMM) is working on a unique three-year project to promote a culture of peace and reconciliation through the Catholic Church in Burundi. This project will be managed by the Catholic Relief Service (CRS) and will have strong secular dimensions. The project will focus on education programs for peace and reconciliation and trauma healing provided by Catholic institutions for the general Burundian population.

Democratic Republic of Congo (DRC)

The DRC has taken significant steps forward in its effort to end conflicts, including an April 2003 power-sharing agreement signed by the government of the DRC, the two primary armed rebel groups, the political opposition, as well as civil society.

USAID supported activities that promote the informed participation of Congolese society in political and economic decision-making processes to contribute to a peaceful, unified, and democratic country. Through an Office of Transition Initiatives (OTI)-funded small grants initiative, strategic grants helped civil society organizations (CSO) enhance their outreach and participation in the peace process, develop advocacy skills, and connect to like-minded organizations throughout the country.

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

USAID is engaged in activities designed to promote a post-conflict transition to a durable peace in the DRC, which is key to the stability of the entire Great Lakes region. These include technical assistance and training to the DRC's national institutions, including the Independent Election Commission, political parties, and subcommittees of the National Assembly; support to transitional justice institutions and non-governmental organizations to protect human rights and promote access to justice at the national and community level; and technical assistance and training in conflict mitigation for citizens to rebuild their communities while re-integrating ex-combatants and displaced persons.

Senegal: USAID's program has been engaged in an effort to stabilize the Casamance region by working with civil society and local government partners in a wide range of peace building, income generation, and conflict mitigation activities. USAID's work with both the government of Senegal (GOS) and the rebel group, MFDC, led to two major events in 2003: the historic May 4th meeting between the leader of the rebellion and President Wade, and an internal conference held by the MFDC to design a coherent negotiation platform for peace talks. Grassroots initiatives supported by USAID included 92 separate events to encourage dialogue, collaboration, and prevention of violence reaching 10,031 individuals. Sixteen local organizations were involved in peace promotion activities, exceeding the target of 10. Due to improved security, USAID has been able to expand its non-conflict programs in health, education, and democratization to the region.

With USAID support from Regional Economic Development Support Office (REDSO), six member states have ratified the protocol for a conflict early warning and response mechanism: offices were established in four countries and data collection has been initiated.

USAID launched the Northern Uganda Peace Initiative (NUPI) in March 2004. The original intention was to promote and prepare the government of Uganda's (GOU) Presidential Peace Team for talks with the Lord's Resistance Army (LRA) on providing humanitarian access to displaced populations in northern Uganda. It was hoped successful talks of a non-political nature would build confidence between the parties and lead to a comprehensive peace process and the end of hostilities. The LRA's failure to respond to a U.S. government offer of talks coupled with increased violence against civilians resulted in a decision that the U.S. government would only support talks if they led to a quick and permanent end to the conflict, disbanding of the LRA, and removal of its leaders. NUPI then shifted focus to promoting a national reconciliation process as part of a wider GOU peace strategy: a long-term national consensus building process that is owned by the GOU and civil society at all levels. NUPI's role is to provide technical assistance to this process by 1) assisting the GOU to establish a national Reconciliation Steering Group, 2) developing the capacity of the Steering Group through technical assistance and team building, 3) acting as a process facilitator and strategy communicator between the GOU and civil society, and 4) advising Ugandan non-government organizations (NGO) and CSOs in developing and coordinating their programs for peace building and reconciliation. As of end FY 2004, NUPI had reached agreement in principle with key GOU ministries and agencies to establish the Steering Group and convene a stakeholders conference on national reconciliation; signed a memorandum of understanding (MOU) with the Center for Conflict Management and Peace Studies (CCMPS), Gulu University, for joint research and advocacy on reconciliation; and consulted widely with GOU, donors, UN, and civil society on plans for reconciliation and post-conflict development.

- MOU approved by USAID/Uganda and signed with CCMPS, Gulu University.
- The PS of MIA agreed in principle to establish a Steering Group on Reconciliation inviting initially representatives from the Ministry of Finance, PS of Office of the Prime Minister (OPM), Human Rights Commissioner, and Commissioner for the Amnesty Commission with NUPI acting in a secretariat function.
- Framework document for Security, Conflict Resolution, and Disaster Management (SCD) Sector Working Group drafted by the OPM with technical assistance from NUPI, and then distributed to Working Group members.

V. PERFORMANCE RESULTS

SUMMARY OF PROVISIONAL OR PRELIMINARY RESULTS — STRATEGIC GOAL 1			
Total Goals and Indicators		**Performance Summary**	
Number of Performance Goals	1	Number of Targets Met	3
Number of Program Goals	1	Number with Data Lags	–
Number of Indicators	3		

PERFORMANCE GOAL #1

Existing and Emergent Regional Conflicts are Contained or Resolved

FY 2004 Net Program Costs - $783,653,596

PROGRAM GOAL: CONFLICT MANAGEMENT AND MITIGATION		
Use a variety of diplomatic and foreign assistance tools to turn despair into hope.		
Performance Indicator #1: Progress Made in Advancement of a Peace Process (Worldwide)		
FY RESULTS HISTORY	**2001**	N/A (new indicator for FY 2004)
	2002	N/A (new indicator for FY 2004)
	2003	N/A (new indicator for FY 2004)
FY 2004 Data	**2004** Preliminary or Provisional **Results**	◆ In Senegal 92 separate events encouraged dialogue, collaboration, and prevention of violence reaching 10,031 individuals. ◆ Sixteen local organizations were involved in peace promotion exceeding the target of 10. ◆ 144 training sessions were sponsored. ◆ In Somalia – Center for Reseearch and Dialogue (CRD) peace forums in Somalia, Academy for Peace and Development (APD) forum for civic dialogue in Somaliland – grass roots peace-building training for 800 women ◆ REDSO cross border peace dialogues in Karamoja have helped break cycles of conflict between the Pokot, Karamojong, Turkana, and Sabiny ethnic groups. ◆ REDSO partners conducted 16 conflict-training courses. ◆ West African Regional Program (WARP) partners trained 150 in conflict reduction and peace-building and 108 in conflict early warning (38 female, 69 male). ◆ Burundi – radio Isanganiro broadcasts 105 hours per week in three languages and has increased its coverage to 90 percent of the population in addition to reaching into neighboring countries. Studio Ijambo produces 17 hours of peace and reconciliation programs per week that are broadcast on seven radio stations. ◆ Sudan – seven major peace reconciliations/peace conferences with 700 to 1000 attending each. ◆ In FY 2004, Democracy, Conflict and Humanitarian Assistance Bureau's (DCHA) CMM Office sponsored a broad range and number of events that will help both its Mission and Washington staff more effectively support conflict management and mitigation, including peace building initiatives. Through a workshop series focusing on monitoring and evaluation of conflict programs, for example, CMM is developing a comprehensive strategic framework and set of indicators for peace-building programs. Together, a series of CMM-sponsored lunchtime addresses and separate set of seminars in conjunction with the Woodrow Wilson Center brought together experts to inform USAID and the broader development community on a wide range of topics. Seminar topics ranged from the state of peace in Sudan to current issues affecting Pakistan and the Caucuses to the role played by young people, businesses, and the security sector in mitigating or exacerbating conflict. CMM has also already played a significant role in coordinating an Agency-wide workshop on community infrastructure in conflict societies, as well as in helping to plan a regional workshop on conflict monitoring and evaluation set for later this fall.

Continued

PROGRAM GOAL: CONFLICT MANAGEMENT AND MITIGATION *(continued)*		
Performance Indicator #1 *(continued)*		
FY 2004 Data *(continued)*	**2004** Preliminary or Provisional **Results** *(continued)*	◆ The CMM Office has developed a series of training and technical assistance tools that can help USAID Missions identify and prioritize the most important causes of conflict in their country. CMM's Conflict Assessment Framework discusses how existing programs interact with underlying conflict dynamics and then illustrates how programs might shift in order to address these dynamics. In FY 2004, CMM offered direct technical assistance to Missions, completing assessments in East Timor, Azerbaijan, Panama, and El Salvador. At the end of FY 2004, CMM was readying publication of the first of a series of conflict "toolkits," which provide technical assistance to critical focus areas that have been shown to be contributing causes of conflict. The toolkits provide USAID missions with access to concrete, practical program options and lessons learned; options for partners; and mechanisms and monitoring and evaluation tools for implementing more effective conflict programs. To date, USAID has published youth, land, and minerals. Next in the series are local governance, human rights, water, and oil and natural gas.
	Target	◆ The results specified above, which were collected on an Agency-wide basis, are considered the targets for FY 2004 for this indicator. Since it is a new Indicator for FY 2004, the process of assigning targets and reporting on their results is still in an early stage of maturity, and will improve as targets are formally established and tracked in FY 2005 and beyond.
	Rating	**On Target**
	Impact	Working toward its mandate of mainstreaming conflict sensitivity within USAID's traditional disaster, transitional, and development assistance portfolios, CMM has achieved positive results by supporting peace building initiatives, conflict sensitivity training, and conflict mitigation-focused media campaigns. These contributions continue to improve USAID's ability to more skillfully support local efforts toward peace and regional stability.

PROGRAM GOAL: CONFLICT MANAGEMENT AND MITIGATION *(continued)*		
Performance Indicator #2: Number of Local Organizations Promoting Peace for 6 + Months		
FY RESULTS HISTORY	**2001**	N/A (new indicator in FY 2003)
	2002	N/A (new indicator in FY 2003)
	2003	16
FY 2004 Data	**2004** Preliminary or Provisional **Results**	◆ USAID's work with both the GOS and the MFDC facilitated two major events this year: the historic May 4th meeting between the leader of the rebellion, Abbé Diamacoune, and President Wade on Senegalese soil; and an internal conference held by the MFDC to design a coherent negotiation platform for peace talks. The internal conference was held in Ziguinchor, marking the first time the MFDC has held a general assembly within the country. USAID's partners worked with key members of the MFDC to advise them on diplomatic techniques and communication strategies and at the same time served as a mediator between the MFDC and the GOS. ◆ USAID-funded village level conflict resolution meetings, primarily with displaced people, reached over 2,940 participants. These meetings addressed problems of community reconciliation, both ethnic and political. An education for peace curriculum, which promotes peace building among youth, was implemented. Ninety-two separate events to encourage dialogue, collaboration, and prevention of violence and reduction of prejudices reached thousands of participants. These included religious ceremonies (Catholic, Moslem and animist), concerts for peace, and ethnic/cultural exchanges. ◆ In Somalia, CRD peace forums in Somalia, APD forum for civic dialogue in Somaliland – grass roots peace building training for 800 women ◆ REDSO cross border peace dialogues in Karamoja have helped break cycles of conflict between the Pokot, Karamojong, Turkana, and Sabiny ethnic groups. ◆ REDSO partners conducted 16 conflict training courses ◆ WARP partners trained 150 in conflict reduction and peace-building and 108 in conflict early warning (38 female, 69 male). Over the past year, WANEP (a grant to a consortium composed of CRS and the West African Network for Peacebuilding) successfully set up national-level peace-building networks in 11 countries involving 298 CSOs. It also carried out comprehensive training needs assessments and subsequently designed training interventions for participating national-level organizations. WANEP's designated public sector partner is ECOWAS, an organization that has publicly committed itself to increasing its role in conflict prevention, but which is notably lacking in capacity. Thirty-three ECOWAS staff and 42 CSOs will be trained in conflict analysis, management, and peace-building. USAID will work with the United Nations Development Program (UNDP) to best structure assistance to deal with this challenge.

PROGRAM GOAL: CONFLICT MANAGEMENT AND MITIGATION *(continued)*		
Performance Indicator #2: Number of Local Organizations Promoting Peace for 6 + Months *(continued)*		
FY 2004 Data *(continued)*	**2004** Preliminary or Provisional **Results** *(continued)*	◆ Burundi – radio Isanganiro broadcasts 105 hours per week in three languages and has increased its coverage to 90 percent of the population in addition to reaching into neighboring countries. Studio Ijambo produces 17 hours of peace and reconciliation programs per week that are broadcast on seven radio stations. ◆ In Burundi, civil society groups help 138 peace and reconciliation meetings ◆ Sudan – Seven major new reconciliations were concluded: the Ngok of Abyei People's Conference, Greater Aweil Dialogue for Peace, Upper Nile Peace Conference, Nuba Mountains, Kidepo Valley Agreement, Tore Conference, and Panakar Peace Conference. ◆ Increased participation in reconciliation efforts reduced local resource-driven endemic conflicts by improving the capacity of stakeholders to share natural resources. About 700 to 1000 people attended each meeting, including representatives of armed militias, but the benefits reached many others in the communities.
	Target	16
	Rating	**On Target**
	Impact	Peace cannot be achieved without extensive effort to reach all parties through the broadest means possible, (i.e., through events, etc.).

PROGRAM GOAL: CONFLICT MANAGEMENT AND MITIGATION *(continued)*		
Performance Indicator #3: Number of Functioning Civil Society-Civil Authority Local Governance Partnerships in Stable Areas		
FY RESULTS HISTORY	**2001**	12
	2002	13
	2003	17
FY 2004 Data	**2004** Preliminary or Provisional **Results**	USAID/Uganda funded several organizations to implement 35 peace dialogue action items, including the facilitation of peacebuilding activities, such as public works, traditional ceremonies, peace fairs, and theater; through peace committees, village leaders, and women's groups. Thirty-five additional peace dialogue meetings were held at national and local levels; 20 peace clubs established in schools. Two large-scale traditional ceremonies involving a total of 199 individuals and five smaller ceremonies were carried out to facilitate the community reintegration of the ex-combatants registering for Amnesty ("reporters").
	Target	35 peace dialogue action items; 20 peace clubs established in schools; two large-scale traditional ceremonies.
	Rating	**On Target**
	Impact	In Northern Uganda key stakeholders in Gulu consulted regarding reconciliation priorities, including religious, district, and traditional leaders; women's groups; NGOs; and civil society.

VI. PROGRAM EVALUATIONS AND PART REVIEWS

Five program evaluations for the FY 2004 budget process were conducted in FY 2004 that pertained to this Strategic Goal.

1) United States Agency for International Development. *Foreign Aid in the National Interest: Promoting Freedom, Security, and Opportunity*. Chapter 4, Mitigating and Managing Conflict. 2002 http://www.usaid.gov/fani/Chapter_4--Foreign_Aid_in_the_National_Interest.pdf
2) United States Agency for International Development, Office of Conflict Management and Mitigation. *Conducting a Conflict Assessment: A Framework for Strategy and Program Development.*
3) United States Agency for International Development, Office of Conflict Management and Mitigation. *Youth & Conflict: A Toolkit for Intervention*
4) United States Agency for International Development, Office of Conflict Management and Mitigation. *Valuable Minerals & Conflict: A Toolkit for Intervention*
5) United States Agency for International Development, Office of Conflict Management and Mitigation. *Land & Conflict: A Toolkit for Intervention*

OTHER REGIONAL SUCCESS STORIES NOT TIED TO SPECIFIC USAID INDICATORS IN REGIONAL STABILITY

Number of Officials and Key Decisionmakers Trained in Peace-Building/Conflict Resolution/Mitigation Skills.

SOMALIA: To promote conflict resolution and peace-building, CRD facilitated a grass-root peace-building training for over 800 women from 14 districts of Mogadishu, the first of its kind to be held in Mogadishu. CRD has collaborated with local CSOs and traditional leaders (met with over 10,000 people) to support their efforts for peace, reconciliation, and security.

SUDAN: Increased participation in reconciliation efforts; reduced local resource-driven endemic conflicts by improving the capacity of stakeholders to share natural resources. About 700 to 1000 people attended each meeting, including representatives of armed militias, but the benefits reached many others in the communities.

USAID also supported Sudan People's Liberation Movement (SPLM) governance assemblies at which elections took place for a national congress that will be convened to ratify a comprehensive peace agreement and set the direction for future governance in SPLM.

UGANDA: Some 268 implementing partner staff, local leaders, religious leaders, and district authorities were trained in media, advocacy, and parish mobilization; and 79 teachers and local and religious leaders were trained in human rights issues. In addition, USAID partners trained 252 paralegals and lawyers in conflict resolution and human rights law, and established Community Crisis Intervention Teams.

Number of USAID-Sponsored Justice Centers

SOMALIA: The War Torn Societies local affiliate in Somaliland, the APD, is now well established and has produced a large constituency promoting peace and good governance in Somaliland.

Percent of Population Reached by Conflict Prevention/ Mitigation Media Campaigns (Disaggregated by Country)

SUDAN: Access to Information. OTI funds supported the Sudan Independent Radio Service, which began broadcasting on July 30, 2003, providing access to information in nine languages for 10 hours per week, and constituted a significant achievement for USAID. On September 15, 2003, the Sudan Mirror, a USAID-supported independent newspaper, printed its first edition of 3,000 copies, focusing on developments in the peace process.

UGANDA: In support of the amnesty program for ex-combatants, USAID has been working closely with the Amnesty Commission to raise awareness of the Amnesty Act 2000 through radio drama programs; weekly magazines in Gulu, Kitgum, and Lira; and talk shows with key amnesty experts.

WARP: Cross-Border Activities with USAID Missions and Embassies: USAID also worked successfully with USAID missions and U.S. embassies to design proposals and obtain competitively awarded funds for two cross-border programs. The first program was jointly developed and vetted with USAID/Senegal and the U.S. Embassy in the Gambia. It focuses on fostering economic stability and social cohesion through reconstruction, peace-building, and conflict mitigation activities in Senegal's Casamance region and in neighboring areas of Guinea Bissau and the Gambia.

The second cross-border activity was based on a proposal that was jointly developed by USAID/WARP, USAID's Sierra Leone program, and USAID/Liberia. The program is implemented by a consortium led by the International Rescue Committee, the Center for Victims of Torture, and Search for Common Ground/Talking Drum Studios. Funded by a combination of Victims of Torture, Trafficking in Persons, and Development Assistance monies, and located in Kailahun district in northeast Sierra Leone, the program targets refugee and internally displaced populations. It provides psychological counseling, information on local conditions, and skills training to victims returning to Sierra Leone or fleeing conflict in Liberia. It also undertakes outreach to refugees in key border areas. The project trains groups of individuals, including health care workers (18), local police (15), school inspectors and teachers (15), local chiefs (90), as well as family and village elders, who work with victims of gender-based violence (GBV) in the four target communities. The result has been an increase in the number of reports of cases of GBV (52 in six months) and growing awareness of the issues.

The project has also trained community-level "psychosocial agents" to counsel those traumatized by their experience of war crimes. By September 2003, 26 such agents had identified 705 clients, conducted assessments, and facilitated 24 group and 1,007 individual discussions. The project also organized recreational activities as a way of promoting social cohesion and rebuilding the social infrastructure destroyed by the war. The project has designed training curriculum materials on GBV as well as promotional materials intended to increase public awareness of the issues. These efforts are reinforced by the development of two radio soap opera programs in local languages to address issues of torture and violence. They are being beamed from Kailahun and reach into neighboring countries of Guinea and Liberia where refugees and internally displaced people are located. Beyond the community, the project is setting up systems to refer GBV cases to concerned ministries.

USAID also finalized the design of an activity that will reach the border areas around Burkina Faso, Cote d'Ivoire, and Mali. The activity builds on the spectacular success of the USAID/Mali's community radio program by expanding it to the two neighboring countries. Community radio will be used to develop and disseminate messages on multiple issues, including trafficking in persons and HIV/AIDS prevention, in the course of FY 2004.

Number of People Trained in Conflict Mitigation/Resolution (disaggregated by country).

SOMALIA: CRD facilitated a grass-root peace-building training for over 800 women from 14 districts of Mogadishu, the first of its kind to be held in Mogadishu. CRD has collaborated with local CSOs and traditional leaders (met with over 10,000 people) to support their efforts for peace, reconciliation, and security. CHECK

SUDAN: Increased participation in reconciliation efforts; reduced local resource-driven endemic conflicts by improving the capacity of stakeholders to share natural resources. About 700 to 1000 people attended each meeting, including representatives of armed militias, but the benefits reached many others in the communities. CHECK

LIBERIA: Project design, gender transformation, and conflict management; and approximately 2,360 circle members (70 percent female) exist in 109 communities in Grand Bassa, Montserrado, and Margibi Counties.

SENEGAL: USAID-funded village level conflict resolution meetings, primarily with displaced people, reached over 2,940 participants. These meetings addressed problems of community reconciliation, both ethnic and political. An education for peace curriculum which promotes peace-building among youth was implemented. Ninety-two separate events to encourage dialogue, collaboration, and prevention of violence and reduction of prejudices reached thousands of participants. These included religious ceremonies (Catholic, Moslem and animist), concerts for peace, and ethnic/cultural exchanges.

SIERRA LEONE: Today, 60 USAID-assisted communities are demonstrating measurable progress toward social healing and peaceful coexistence. Considerable progress was also achieved in improving the climate for mutual acceptance among ex-combatants, war-affected youth, and community members. Over 5,000 ex-combatants and war-affected youth participated in civic works projects that facilitated their integration back into society. Some ex-combatants and war-affected youth attribute their return specifically to USAID intervention, which provided gainful employment and skills training. This had a profound effect on reconciliation by increasing trust and unity, decreasing fear and stigmatization, and building mutual respect between ex-combatants and their communities.

STRATEGIC GOAL 2: COUNTERTERRORISM

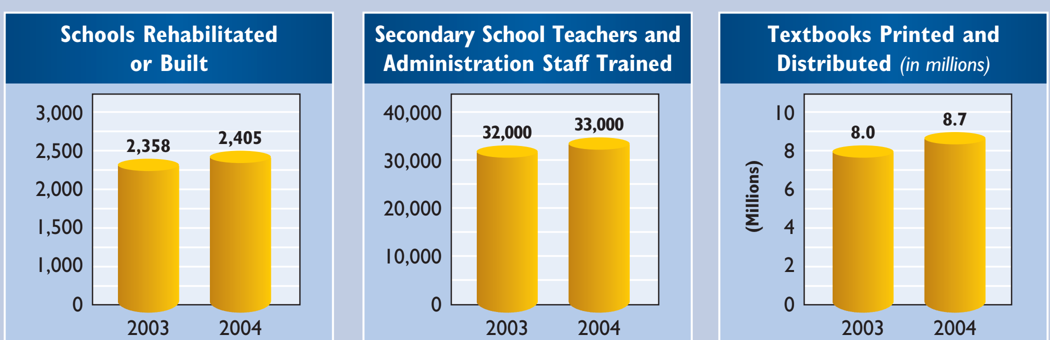
Prevent Attacks Against the United States, Our Allies, and Our Friends, and Strengthen Alliances and International Arrangements to Defeat Global Terrorism

I. PUBLIC BENEFIT

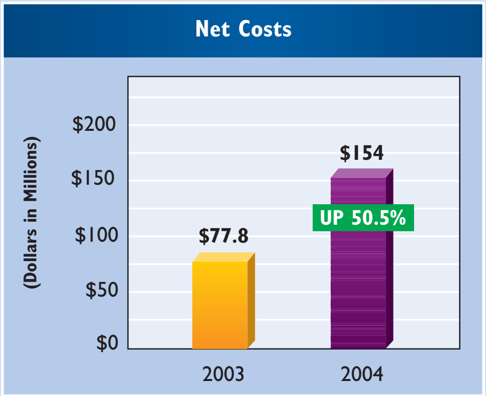
The tragic events of 9/11 demonstrated the gravity of the threat international terrorists pose to the United States and its citizens, at home and abroad. With a presence in some 60 countries, Al-Qaeda continues to be of great concern, although it has been significantly weakened by U.S. actions in the past two years. USAID plays an important supportive role to the Department of State, which has the lead in international aspects of the Global War on Terrorism (GWOT). In every corner of the globe, the Secretary, the USAID Administrator, other senior officials, ambassadors, and mission directors have pressed their counterparts for expanded cooperation and intensified efforts against terrorists. Through such effective diplomacy, the United States has developed and leads a worldwide coalition that acts to suppress terrorism on all fronts: military, intelligence, law enforcement, public diplomacy, and financial. Over 3,000 terrorist suspects have been arrested, and over $138 million in terrorists' assets have been blocked by over 40 foreign governments. Key to the ability to mobilize effective action by USAID's foreign partners is the provision of training to those who want to help but lack the means. Since 9/11, these programs, including programs on anti-terrorist assistance, establishing stable and modern government, job creation, and education reforms, have significantly improved the abilities of many countries to be effective partners.

II. SELECTED PERFORMANCE TRENDS

Trajectory of Support for Education Reform and Development in Iraq



III. RESOURCES INVESTED



IV. ILLUSTRATIVE EXAMPLE OF SIGNIFICANT ACHIEVEMENT

Counterterrorism

USAID's strategy is to deny recruits from terrorist organizations by offering better alternatives: basic education vs. radical madrasas, skills training vs. unemployment, and the development of micro-enterprise generated jobs vs, terrorism out of a sense of hopelessness and desperation. USAID targets areas where terrorist recruiting conditions are the strongest: large Muslim communities, relatively poor communities, areas characterized by high youth unemployment, and where there are large pockets of disaffected groups. USAID works on the frontlines of many countries hardest hit by terrorism by increasing public services and stability, and helping to establish good governance, the rule of law and administration of justice, conflict mitigation, and public communication. An excellent example of USIAD's efforts in the area of public communication includes conducting a full day seminar for press correspondents, Participants included representatives from Al-Ahram; Algerian Press Services; Saudi Press Agency; Kuwait News Agency and Annahar. Also attending were journalists representing leading Arab-American publications, community newspapers and Arab correspondents. "USAID's new public diplomacy initiative is committed to presenting a more accurate image of America to the greater Middle East, and promoting a better understanding of the policy goals of Presidential Initiatives and the mission of USAID," says Director, Walid Maalouf.

V. PERFORMANCE RESULTS

SUMMARY OF PROVISIONAL OR PRELIMINARY RESULTS — STRATEGIC GOAL 2			
Total Goals and Indicators		**Performance Summary**	
Number of Performance Goals	1	Number of Targets Met	8
Number of Program Goals	4	Number with Data Lags	5
Number of Indicators	13		

PERFORMANCE GOAL #1

Diminished Political and Economic Conditions that Permit Terrorism to Flourish

FY 2004 Net Program Costs - $154,174,636

PROGRAM GOAL: DIMINISH POTENTIAL UNDERLYING CONDITIONS OF TERRORISM IN IRAQ		
Ensure that both public and private institutions are developed and strengthened to be able to prevent the reoccurrence of terrorist infiltration.		
Performance Indicator #1: Level of Economic Aid to Iraq		
FY RESULTS HISTORY	**2001**	N/A (new indicator for FY 2004)
	2002	N/A (new indicator for FY 2004)
	2003	N/A (new indicator for FY 2004)
FY 2004 Data	**2004** Preliminary or Provisional **Results**	◆ Thirty-eight individual countries pledged in Madrid, plus the European Community (EC), World Bank, and International Monetary Fund (IMF) for a total of 41 countries/organizations ◆ Total pledged for 2004-2007 from non-U.S. donors at Madrid totaled over $8 billion from donor governments including loan assistance (e.g., Japan pledged $5 billion of which $3.5 billion was in the form of concessional lending), and another $5.5 billion in potential lending from the World Bank and the IMF. OTI/Iraq ◆ Provided 25 grants to support women's centers in Iraq ◆ Provided 84 grants to support schools ◆ Provided 10 grants to rehabilitate clinics ◆ Provided 12 grants to rehabilitate libraries ◆ Provided 20 grants to support youth centers ◆ The OTI Iraq program did 1524 small grants for $114 million dollars in FY04.
	Target	Maximize international participation in the level of economic aid to Iraq.
	Rating	**On Target**
	Impact	$3.3 billion in U.S aid fixed schools, vaccinated millions of children, restored electricity, and created Iraq's first democratic councils.

PROGRAM GOAL: DIMINISH POTENTIAL UNDERLYING CONDITIONS OF TERRORISM IN IRAQ *(cointinued)*		
Performance Indicator #2: Support Education Reform and Development in Iraq		
FY RESULTS HISTORY	**2001**	N/A (new indicator in FY 2003)
	2002	N/A (new indicator in FY 2003)
	2003	Data first collected in FY 2003: ◆ 2,358 schools rehabilitated or built. ◆ Over 32,000 secondary school teachers and administration staff trained. ◆ Over eight million textbooks printed and distributed.
FY 2004 Data	**2004** Preliminary or Provisional **Results**	◆ 2,405 schools rehabilitated or built. ◆ Over 33,000 secondary school teachers and administration staff trained. ◆ Over 8.7 million textbooks printed and distributed.
	Target	◆ Over 2,000 schools to be rehabilitated or built. ◆ Over 30,000 secondary school teachers and administration staff to be trained. ◆ Over 8 million textbooks to be printed and distributed.
	Rating	**Exceeded Target**
	Impact	U.S. funds paid for Iraqi workmen to turn crumbling schools into freshly painted places to learn. An accelerated learning program USAID launched helped particularly motivated young people to make up for lost time and do two years' academic work in one.
Performance Indicator #3: Provide Assistance to Transform Iraq to a Free Market-based Economy		
FY RESULTS HISTORY	**2001**	N/A (new indicator in FY 2003)
	2002	N/A (new indicator in FY 2003)
	2003	With the Ministry of Finance, the new national currency, the Iraqi dinar, was introduced.
FY 2004 Data	**2004** Preliminary or Provisional **Results**	◆ Developed 10 laws and/or regulations processes relating to private sector development. ◆ Implemented Financial Management Information System (FMIS) at Ministry of Finance; implementation in progress at six key Ministries.
	Target	◆ Develop at least 10 laws and/or regulations processes relating to private sector development . ◆ Implement an FMIS at the Ministry of Finance and six other key Ministries.
	Rating	**On Target**
	Impact	USAID's efforts to create jobs and strengthen overall trade, investment, and enterprise growth programs throughout the country will help promote and support stability and security.

PROGRAM GOAL: DIMINISH POTENTIAL UNDERLYING CONDITIONS OF TERRORISM IN IRAQ *(cointinued)*		
Performance Indicator #4: Support Iraqis in Their Efforts to Define and Develop Democratic Local Governance Policies and Systems		
FY RESULTS HISTORY	**2001**	N/A (new indicator in FY 2003)
FY RESULTS HISTORY	**2002**	N/A (new indicator in FY 2003)
FY RESULTS HISTORY	**2003**	Data first collected in FY 2003: **Baseline:** 90 percent of districts with local governance established.
FY 2004 Data	**2004 Preliminary or Provisional Results**	◆ Ninety-five percent of districts with local governance established.
FY 2004 Data	**Target**	◆ At least 95 percent of districts with local governance established. ◆ Maximize number of small grants provided.
FY 2004 Data	**Rating**	**On Target**
FY 2004 Data	**Impact**	In order for local governance to be established, community members must be engaged and active participants, and national government structures must support local decision-making.
Performance Indicator #5: Create Jobs and Provide Essential Services in Iraq		
FY RESULTS HISTORY	**2001**	N/A (new indicator in FY 2004)
FY RESULTS HISTORY	**2002**	N/A (new indicator in FY 2004)
FY RESULTS HISTORY	**2003**	N/A (new indicator in FY 2004)
FY 2004 Data	**2004 Preliminary or Provisional Results**	◆ 48,000, jobs created through USAID-funded works projects. ◆ w Average 30,000 Iraqi's employed per month on short term basis (future numbers dependent upon security situation)
FY 2004 Data	**Target**	◆ Direct employment of 50,000 Iraqi's by USAID-financed projects. ◆ Employ 40,000 Iraqi's per month on short-term basis.
FY 2004 Data	**Rating**	**Below Target**
FY 2004 Data	**Impact**	USAID's efforts to create jobs will help promote and support stability and security.
Performance Indicator #6: Promote Citizenry Confidence in Government's Ability to Effectively and Efficiently Function		
FY RESULTS HISTORY	**2001**	N/A (new indicator in FY 2004)
FY RESULTS HISTORY	**2002**	N/A (new indicator in FY 2004)
FY RESULTS HISTORY	**2003**	N/A (new indicator in FY 2004)
FY 2004 Data	**2004 Preliminary or Provisional Results**	◆ Office of Transition Initiatives (OTI) awarded more than 1,888 small grants for quick impact activities that support: good governance, civil society, conflict management and mitigation, human rights, and transitional justice. ◆ The 1,888 small grants total more than $142 million
FY 2004 Data	**Target**	Maximize number of small grants provided.
FY 2004 Data	**Rating**	**On Target**
FY 2004 Data	**Impact**	Confidence in government functions will foster democracy and stability and reduce the threat of terrorism.

PROGRAM GOAL: DIMINISH POTENTIAL UNDERLYING CONDITIONS OF TERRORISM IN IRAQ *(cointinued)*		
Performance Indicator #7: Increase Delivery of Essential Services in Iraq		
FY RESULTS HISTORY	**2001**	N/A (new indicator in FY 2004)
	2002	N/A (new indicator in FY 2004)
	2003	N/A (new indicator in FY 2004)
FY 2004 Data	**2004** Preliminary or Provisional **Results**	◆ Increased availability of potable water to 27 percent of target population. ◆ Increased volume of treated sewerage to seven percent of target population. ◆ Supported delivery of water for irrigation meeting 13 percent of target. ◆ Increased availability of electricity meeting 22 percent of target population.
	Target	◆ Increase availability of potable water—target population 6.5 million Iraqis ◆ Increase volume of treated sewerage –target population 6.1 million Iraqis ◆ Support delivery of water for irrigation to eight pumping stations ◆ Increase availability of electricity by adding 2036 megawatts (MW).
	Rating	**On Target**
	Impact	Essential service delivery will both improve severe impoverished conditions in the country and promote stability and security.

PROGRAM GOAL: DIMINISH POTENTIAL UNDERLYING CONDITIONS OF TERRORISM IN AFGHANISTAN		
Ensure that both public and private institutions are developed and strengthened to be able to prevent the reoccurrence of terrorist infiltration.		
Performance Indicator #1: Moderate Government Strengthened in Afghanistan		
FY RESULTS HISTORY	**2001**	N/A (new indicator in FY 2004)
	2002	N/A (new indicator in FY 2004)
	2003	N/A (new indicator in FY 2004)
FY 2004 Data	**2004** Preliminary or Provisional **Results**	◆ USAID provided critical assistance for December's Loya Jirga, which led to ratification of the constitution; support for the September 2004 elections. Seven judicial facilities built/rehabilitated (estimate). ◆ 443 judicial experts trained (estimate). ◆ 10.5 million – Number of people registered to vote; approximately 95 percent of eligible voters registered to vote, although it is difficult to know exact percentage because there are no reliable demographic figures for Afghanistan.
	Target	◆ The results specified above, which were collected on an Agency-wide basis, are considered the targets for FY 2004 for this indicator. Since it is a new Indicator for FY 2004, the process of assigning targets and reporting on their results is still in an early stage of maturity, and will improve as targets are formally established and tracked in FY 2005 and beyond.
	Rating	**On Target**
	Impact	The establishment of a stable and moderate government in Aghanistan is critical to eliminating safe havens for terrorists.

PROGRAM GOAL: DIMINISH POTENTIAL UNDERLYING CONDITIONS OF TERRORISM IN AFGHANISTAN *(cointinued)*		
Performance Indicator #2: Rural Economic Opportunity Expanded in Afghanistan		
FY RESULTS HISTORY	**2001**	N/A (new indicator in FY 2003)
	2002	N/A (new indicator in FY 2003)
	2003	Data first collected in FY 2003: ◆ 100,000 (cumulative) farmers served by extension through USAID assistance. ◆ 8,000 irrigation/ water works projects completed.
FY 2004 Data	**2004** Preliminary or Provisional **Results**	◆ 567,806 (cumulative) farmers served by extension through USAID assistance. ◆ 310,500 (cumulative) hectares receiving improved irrigation through USAID assistance. ◆ 8,400 (cumulative) microfinance loans disbursed totaling USD $1.26 million.
	Target	◆ The results specified above, which were collected on an Agency-wide basis, are considered the targets for FY 2004 for this indicator. Since it is a new Indicator for FY 2004, the process of assigning targets and reporting on their results is still in an early stage of maturity, and will improve as targets are formally established and tracked in FY 2005 and beyond.
	Rating	**On Target**
	Impact	USAID's efforts to create jobs and support to strengthen overall rural growth programs throughout the country will help support stability and security.
Performance Indicator #3: Rehabilitation Status of Afghan Educational Infrastructure		
FY RESULTS HISTORY	**2001**	N/A (new indicator in FY 2003)
	2002	N/A (new indicator in FY 2003)
	2003	Data first collected in FY 2003: ◆ 188 schools rehabilitated/ built through USAID assistance. ◆ 15,282 students enrolled/ trained (in three provinces) through USAID assistance. ◆ 7,900 teachers trained through USAID assistance. ◆ 10.3 million textbooks printed/ distributed through USAID assistance.
FY 2004 Data	**2004** Preliminary or Provisional **Results**	◆ 81 – Number of schools built or rehabilitated in 2004 through USAID assistance. ◆ 169,716 – Students enrolled/ trained (in three provinces) through USAID assistance. ◆ 35,819 – Number of teachers trained in 2004 through USAID assistance. ◆ TBD – textbooks printed/ distributed through USAID assistance. ◆ TBD – textbooks printed/ distributed through USAID assistance.
	Target	◆ The results specified above, which were collected on an Agency-wide basis, are considered the targets for FY 2004 for this indicator. Since it is a new Indicator for FY 2004, the process of assigning targets and reporting on their results is still in an early stage of maturity, and will improve as targets are formally established and tracked in FY 2005 and beyond.
	Rating	**On Target**
	Impact	This indicator will measure the efforts to build or rehabilitate Afghanistan's education system, with a focus on providing support to secular schools and education; as well as promote democratic values through education.

PROGRAM GOAL: DIMINISH CONDITIONS EXPLOITED BY TERRORIST RECRUITMENT IN OTHER FRONTLINE STATES		
Policies, programs, and activities establish attractive alternatives to terrorist indoctrination and recruitment.		
Performance Indicator #1: Alternative Education Systems Supported		
FY RESULTS HISTORY	**2001**	N/A (new indicator in FY 2004)
	2002	N/A (new indicator in FY 2004)
	2003	N/A (new indicator in FY 2004)
FY 2004 Data	**2004** Preliminary or Provisional **Results**	◆ Number of students enrolled in secular basic education programs in schools in Muslim countries (disaggregated by type of school, e.g. madras, other). ◆ Number of students graduating from vocational training programs in Muslim communities with high youth unemployment/underemployment. ◆ Number of books and secular material printed in local languages distributed to identified schools.
	Target	◆ The results specified above, which were collected on an Agency-wide basis, are considered the targets for FY 2004 for this indicator. Since it is a new Indicator for FY 2004, the process of assigning targets and reporting on their results is still in an early stage of maturity, and will improve as targets are formally established and tracked in FY 2005 and beyond.
	Rating	This information is not available at this time, but will be updated in the FY 2004 USAID PAR Addendum in March 2005.
	Impact	This indicator will measure the efforts to support alternatives to radical schools; as well as promote democratic values in Frontline states.
Performance Indicator #2: Civilian Livelihood Opportunities Expanded		
FY RESULTS HISTORY	**2001**	N/A (new indicator in FY 2004)
	2002	N/A (new indicator in FY 2004)
	2003	N/A (new indicator in FY 2004)
FY 2004 Data	**2004** Preliminary or Provisional **Results**	◆ Number of jobs created through USAID-funded works projects. ◆ Number of loans provided through USAID assistance. ◆ Number of farmers / micro entrepreneurs served through extension services supported by USAID. ◆ In Sierra Leone – 5088 ex-combatants and war-affected youth participated in communal civic works projects.
	Target	TBD
	Rating	This information is not available at this time, but will be updated in the FY 2004 USAID PAR Addendum in March 2005.
	Impact	This indicator will measure USAID's efforts to create jobs and support to strengthen overall economic growth programs throughout Frontline countries. As well, it will measure USAID efforts to reintegrate former combatants back into civilian livelihoods. This will help support stability and security.

PROGRAM GOAL: DIMINISH CONDITIONS EXPLOITED FOR TERRORIST SANCTUARY IN OTHER FRONTLINE STATES		
Policies, programs, and activities promote responsive and transparent governance to diminish opportunities for terrorist establishing sanctuary.		
Performance Indicator #1: Stable and Moderate Governments Established		
FY RESULTS HISTORY	2001	N/A (new indicator in FY 2004)
	2002	N/A (new indicator in FY 2004)
	2003	N/A (new indicator in FY 2004)
FY 2004 Data	2004 Preliminary or Provisional Results	◆ In Sierra Leone 144 community organizations effectively managed and implemented self-selected development projects, like the Yengema carpentry project; 34 high-impact infrastructure projects were completed. ◆ In Uganda, 3,585 formerly abducted children were assisted with psycho-social rehabilitation and reintegration, of whom 1,796 are not enrolled in school or vocational training exceeding the target of 495. ◆ On both sides of the Kenya/Somali border, pastoral groups have always resorted to violence to resolve water disputes, one of the root causes of conflict in this volatile region. During the past three years, USAID has funded private agencies working together (PACT) to work with the Wajir South Development Association (WASDA) to reduce conflict by improving water sources through drilling bore holes, building dams, and assisting groups to negotiate joint use and management agreements for water points. WASDA has also helped establish Peace Committees that monitor the level of tension in communities and harmonize the needs of neighborhoods. As a result, communities in the region are experiencing peace for the first time, food security has improved, and small businesses are flourishing. ◆ Asia and Near East (ANE) region: With other donors, USAID has worked with hundreds of communities on thousands of small-scale activities in Afghanistan, including constructing wells, local roads, and market centers. Exact number of activities not currently available.
	Target	TBD
	Rating	This information is not available at this time, but will be updated in the FY 2004 USAID PAR Addendum in March 2005.
	Impact	This will measure progress made in establishing good governance at the local and community levels. The more that community decisions are made through participatory and transparent means, the less terrorist groups and shadow governance groups will be able to successfully offer viable alternatives.

VI. PROGRAM EVALUATIONS AND PART REVIEWS

No program evaluations or PART reviews were conducted in FY 2004 for this strategic goal.

Muslim Mindanao

The Alliance for Mindanao Off-Grid Renewable Energy (AMORE) provides solar-powered compact fluorescent lights and street lamps in the southern Philippines. By allowing work and study to extend into the evening hours, AMORE is helping to increase business and educational opportunities in a region where extreme lack of development has contributed to a rise in recruitment by militant and international terrorist groups.

AMORE joins USAID with the Autonomous Region of Muslim Mindanao, Mirant Philippines Corporation, and Philippine Department of Energy, who together contributed $3.7 million to augment USAID's $2.4 million of funding. Together, the alliance partners have established sustainable, renewable solar energy and micro-hydro systems in at least 160 remote rural communities, serving 5,000 homes.

Alliance for Mindanao Off-Grid Renewable Energy brings solar-powered lights to Muslim Mindanao.

STRATEGIC GOAL 3: INTERNATIONAL CRIME AND DRUGS

Minimize the Impact of International Crime and Illegal Drugs on the United States and Its Citizens

I. PUBLIC BENEFIT

Americans face growing security threats, both at home and abroad, from international terrorist networks and their allies in the illegal drug trade and international criminal enterprises. Illegal drugs impose a staggering toll, killing more than 19,000 Americans annually and costing more than $160 billion in terms of law enforcement, drug-related heath care, and lost productivity. This is in addition to the wasted lives; the devastating impact on families, schools, and communities; and the generally corrosive effect on public institutions. In the President's words, "Illegal drug use threatens everything that is good about our country."

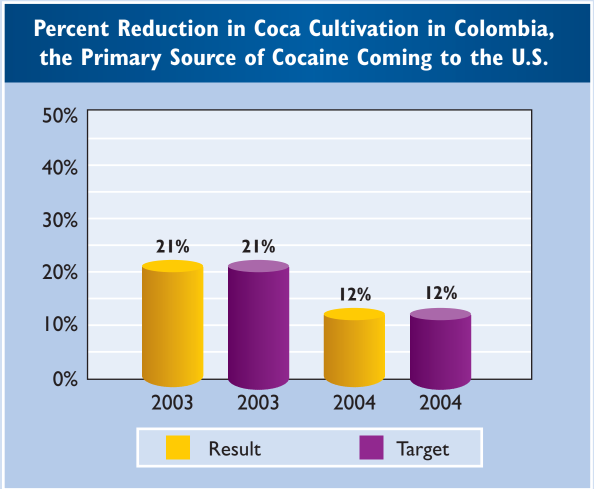
International crime groups also pose critical threats to U.S. interests, undermine the rule of law, and enable transnational threats to grow. International trafficking in persons, smuggling of migrants and contraband, money laundering, cyber crime, theft of intellectual property rights, vehicle theft, public corruption, environmental crimes, and trafficking in small arms cost U.S. taxpayers and businesses billions of dollars each year. International trafficking in persons violates fundamental human rights of victims. Experts estimate that non-drug crime accounts for half of the estimated $750 billion of money laundered each year globally.

The events of 9/11 and their aftermath highlight the close connections and overlap among international terrorists, drug traffickers, and transnational criminals. All three groups seek out weak states with feeble judicial systems, whose governments they can corrupt or even dominate. Such groups jeopardize peace and freedom, undermine the rule of law, menace local and regional stability, and threaten the United States and its friends and allies.

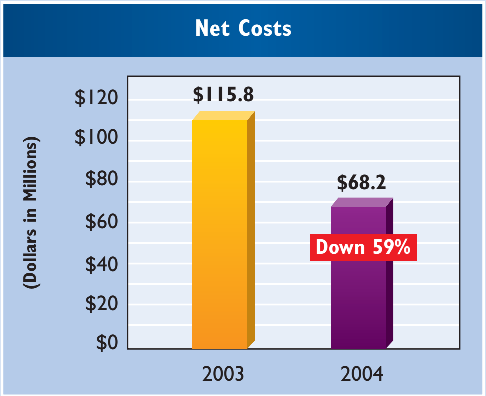
Despite bold efforts by Colombia, Bolivia, and Peru to combat narcotrafficking, the lack of a state presence in some areas has allowed illegal narcotics production and armed terrorist organizations to continue to flourish. USAID is working in partnership with the Andean region's leadership, who are actively pursuing policies to fight narco-terrorism and expand the reach of government and rule of law. USAID support in this sector is aimed at strengthening the presence and role of the state, strengthening local governance and civil society, providing small farmers a means to abandon illicit crop production permanently by developing viable licit economic opportunities, and improving the social conditions of farm families living in and around areas of illicit crop production.

Awareness of trafficking in persons is growing among Latin American governments, fueled in part by increasing international attention to the subject. USAID will continue to address aspects of prevention, victim protection, and prosecution of traffickers through public education efforts, capacity building for public and private social service organizations, and passage and implementation of comprehensive laws. Successful anti-trafficking initiatives are reinforced by programs that support economic development, good governance, education, health and human rights, and flow from country-based collaborative frameworks that have the committed participation of civil society, government, and law enforcement.

II. SELECTED PERFORMANCE TRENDS



III. RESOURCES INVESTED



IV. ILLUSTRATIVE EXAMPLE OF SIGNIFICANT ACHIEVEMENT

Andean Counterdrug Initiative

The Andean Counterdrug Initiative has begun paying high dividends in the fight against illegal cocaine and heroin from the Andean region of South America. In 2003, the Andean coca crop dropped to its lowest levels since the U.S. government estimates began back in 1986. Total cultivation was down 16 percent in 2003. The U.S.-backed aerial eradication program in Colombia, the primary source of cocaine coming to the United States, was particularly effective, reducing coca cultivation by 21 percent in 2003 and by 33 percent over the past two years. Opium poppy cultivation in Colombia, which along with Mexico provides 90 percent of the illegal heroin consumed in the United States, also declined, by 10 percent. For 2004, the aerial eradication operation is on a glide path for a third straight year of reduced coca and opium poppy cultivation. During this same period, the United States helped Colombia establish a security presence in 158 municipalities formerly left to narco-terrorists, leading to a dramatic fall in violent crime and displaced people. In Peru, the aggressive U.S.-backed coca eradication program produced a 15 percent decline in cultivation, the second straight year of decline. Cultivation also dropped 15 percent in the old Bolivian bread-basket for coca, the Chapare, but increased in the Yungas where opposition groups have opposed, sometimes violently, government eradication efforts. Despite the 17 percent overall increase in Bolivia, the cultivation level remains well below the high point of the 1990s and significantly below the level in Colombia.

V. PERFORMANCE RESULTS

SUMMARY OF PROVISIONAL OR PRELIMINARY RESULTS — STRATEGIC GOAL 3			
Total Goals and Indicators		**Performance Summary**	
Number of Performance Goals	1	Number of Targets Met	2
Number of Program Goals	2	Number with Data Lags	–
Number of Indicators	2		

PERFORMANCE GOAL #1

International Trafficking in Drugs, Persons, and Other Illicit Goods Disrupted and Criminal Organizations Dismantled

FY 2004 Net Program Costs - $68,243,639

PROGRAM GOAL: GLOBAL POPPY CULTIVATION

Strengthen the unified campaign against drug trafficking and the terrorists who benefit from it.

Performance Indicator #1: Number of Hectares in Licit Production Formerly in Illicit Poppy Production (Alt: Alternative Development Supported)

FY RESULTS HISTORY	2001	N/A (new indicator for FY 2004)
	2002	N/A (new indicator for FY 2004)
	2003	N/A (new indicator for FY 2004)
FY 2004 Data	2004 Preliminary or Provisional Results	25,000 hectares (estimate) in licit production formerly in illicit poppy production in the ANE region.
	Target	25,000 hectares
	Rating	**On Target**
	Impact	This indicator will measure the impact of USAID programs to educate growers, provide alternative seeds and agricultural inputs, and promote the production of licit crops in areas where poppy has been grown.

PROGRAM GOAL: IMPROVE ANTI-TRAFFICKING PROSECUTORIAL AND PROTECTION CAPACITIES

Train law enforcement officials and service providers to work collaboratively to take preventive measures against trafficking in persons, identify trafficking rings and victims, effectively use existing legislation to prosecute traffickers, weed out corruption, and ensure protections for victims.

Performance Indicator #1: Number of People Reached Through USAID-supported Anti-trafficking in Persons Programs

FY RESULTS HISTORY	2001	N/A (new indicator in FY 2003)
	2002	N/A (new indicator in FY 2003)
	2003	Data first collected in FY 2003: ◆ 5,060,500 persons reached by public awareness. ◆ 3,737 officials educated or trained. ◆ 362 survivors of trafficking in persons (TIP) receive counseling and other support services.
FY 2004 Data	2004 Preliminary or Provisional Results	◆ ANE: 320,000 (est.) – Number of Persons Reached by Public Awareness. ◆ ANE: 5,200 (est.) – Number of Officials Educated or Trained. ◆ ANE: 6,400 (est.) – Number of Survivors of TIP That Receive Counseling and Other Support Services. ◆ Latin America and the Caribbean (LAC) Region – Many new TIP programs in LAC this year. Data is impossible to project – will use data from 2004 Annual Report.
	Target	◆ The results specified above, which were collected on an Agency-wide basis, are considered the targets for FY 2004 for this indicator. Since it is a new Indicator for FY 2004, the process of assigning targets and reporting on their results is still in an early stage of maturity, and will improve as targets are formally established and tracked in FY 2005 and beyond.
	Rating	**On Target**
	Impact	By increasing awareness of the dangers of trafficking, training officials on the legal and human rights issues of trafficking, and by providing support services to the survivors of trafficking, USAID's efforts will result in the mitigation of the numbers of people trafficked and in the consequences of trafficking.

VI. PROGRAM EVALUATIONS AND PART REVIEWS

One program evaluation was conducted in FY 2004 that pertained to this Strategic Goal.

1) Results of the CAD [Colombia Alternative Development] Project Appraisal Survey: An Evaluation of the Effect and Impact of the CAD Project in Putumayo Department, Colombia. Link: http://www.dec.org/pdf_docs/PDACA534.pdf

USAID *Peace Diamond Alliance counters illegal international trade.*

Sierra Leone / Peace Diamonds

In order to control the high number of diamonds exported illegally each year in Sierra Leone, USAID brought together the Sierra Leonean government, DeBeers, diamond mining communities, local organizations, and international donors to form the 2002 Kono Peace Diamond Alliance. The alliance addresses smuggling and exploitation by connecting mining cooperatives with internationally recognized buyers. As a result, for the first time ever, mining communities received a portion of the tax revenues from diamond sales to build public structures, markets, and schools.

STRATEGIC OBJECTIVE #2: ADVANCE SUSTAINABLE DEVELOPMENT AND GLOBAL INTERESTS

Protecting the United States and its allies from the dangers of terrorism, weapons of mass destruction, international crime, and regional instability is necessary but not sufficient for achieving national security. A more healthy, educated, democratic, and prosperous world — in short, a better world — will also be more stable and secure

USAID's strategic goals for democracy and human rights, economic prosperity and security, and social and environmental issues are part of a larger whole. It is no coincidence that conflict, chaos, corrupt and oppressive governments, environmental degradation, and humanitarian crisis often reign in the same places.

The broad aim of USAID's programs in development assistance is to turn vicious circles into virtuous ones, where accountable governments, political and economic freedoms, investing in people, and respect for individuals beget prosperity, healthy and educated populations, and political stability.

The following are the strategic goals that comprise this strategic objective:

- Strategic Goal 4: Democracy and Human Rights
- Strategic Goal 5: Economic Prosperity and Security
- Strategic Goal 6: Social and Environmental Issues
- Strategic Goal 7: Humanitarian Response

STRATEGIC GOAL #4: DEMOCRACY AND HUMAN RIGHTS

Advance the Growth of Democracy and Good Governance, including Civil Society, the Rule of Law, Respect for Human Rights, and Religious Freedom

I. PUBLIC BENEFIT

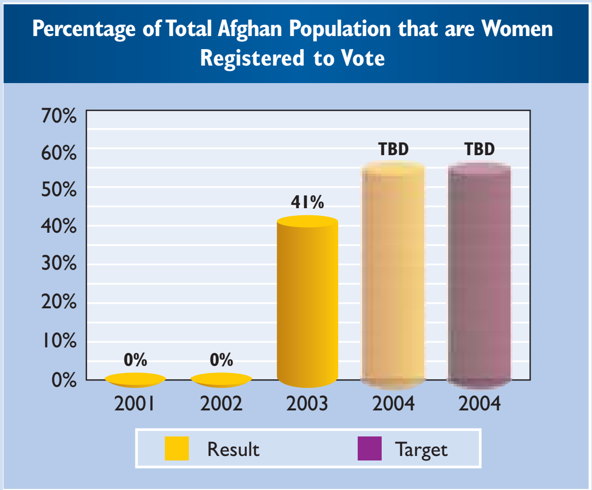
The United States recognizes that a world composed of democracies will better protect America's long-term national security than a world of authoritarian or chaotic regimes. The rule of law, open markets, more prosperous economies, and better-educated citizens are all benefits of a democratic form of government. Democratic governance ensures a more peaceful, predictable world – a great and lasting benefit to the United States.

Protecting human rights and advocating democracy is an integral part of a U.S. foreign policy that seeks to end oppression, combat terrorism, and promote democratic ideals and freedoms worldwide. USAID seeks opportunities to cooperate with human rights advocates and policymakers to engender positive change in countries that strive for democracy and human rights, and to challenge those that routinely ignore international human rights or selectively uphold them.

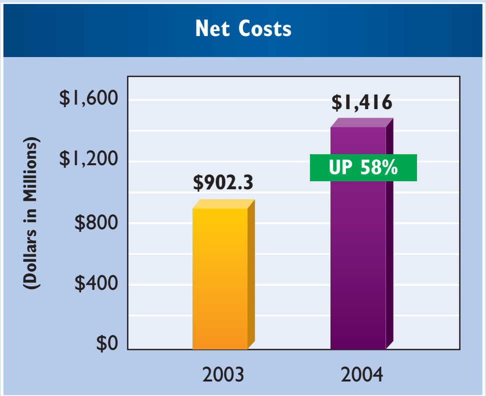
Institutionalizing democracy, human rights, and good governance in priority developing countries is the focus of USAID programs in approximately 80 countries around the globe. These on-the-ground efforts build institutions and processes to ensure free, effective individual participation in national and local political processes. Countries where USAID is successfully implementing these programs become more successful participants in the international community, as well as better strategic and business partners for the United States.

While the United States continues to play a leading role in promoting democracy and human rights, USAID recognizes that those are not uniquely American concepts. As democratization must ultimately be a process driven by a society's citizenry, USAID must work to make sure reforms reflect a representative political process. Advancing women's rights, for example, generates benefits through the role women play in strengthening democracies, building economic security, increasing governments' respect for human rights, and enhancing religious tolerance.

II. SELECTED PERFORMANCE TRENDS



III. RESOURCES INVESTED



IV. ILLUSTRATIVE EXAMPLE OF SIGNIFICANT ACHIEVEMENT

Afghanistan's New Constitution

On January 4, 2004 the Constitutional Loya Jirga (CLJ) passed the new Afghan Constitution, noted as one of the most democratic documents in the region. The CLJ was characterized by energized, open debate and proved to the world that the Afghan people are moving steadily forward on the path to democracy. The constitution they developed provides strong human rights protections, including the incorporation of international treaties to which Afghanistan is a party. Islam is recognized as the official religion, but the practice of other religions is protected. Women also made substantial gains in the CLJ including one woman selected as a deputy chairperson, specific mention of women's equality, the official recognition of women as citizens, and a guarantee of at least two women per province to be elected to the lower house (approximately 20 percent of seats).

The United States provided training in political advocacy for women delegates to the CLJ in December 2003. The CLJ (12/15 -1/4) was comprised of 502 delegates (including 102 women) elected from a pool of participants in the June 2002 Emergency Loya Jirga. The delegates were presented with a draft constitution, which had been drafted by a nine-member commission (two of whom were women) and revised by a larger 35-member commission (seven of whom were women) in prior months. Today, women in Afghanistan are judges, teachers, politicians, health officials, agronomists, athletes, and Fulbright scholars. Many of these women have traveled to other countries in their capacities as officials, students, visitors and delegates to global fora, signaling Afghan women's reentry into the international community.

Women in Iraq

Iraqi women occupy numerous positions in the new government. The Iraqi cabinet, announced in May 2004, includes six women ministers (out of a total of 33 individuals), in the following Ministries: Agriculture, Displacement and Migration, Environment, Labor and Social Affairs, Public Works, and Women's Affairs. In April 2004, seven women were appointed to hold deputy minister positions. Women occupy six of the 37 seats on the Baghdad City Council, 81 serve on neighborhood and district councils around the capital, and many women have also been elected to district, local, and municipal councils in most other regions of Iraq. The Department also backed the successful efforts to persuade the Iraqi Governing Council to repeal Resolution 137, which would have imposed Shari'ah family law on Iraqi women, and to outlaw gender discrimination in the Transitional Administrative Law (TAL). The TAL guarantees that all Iraqis are equal in their rights and before the law without regard to gender, sect, opinion, belief, nationality, religion, or origin.

V. PERFORMANCE RESULTS

SUMMARY OF PROVISIONAL OR PRELIMINARY RESULTS — STRATEGIC GOAL 4			
Total Goals and Indicators		**Performance Summary**	
Number of Performance Goals	1	Number of Targets Met	2
Number of Program Goals	1	Number with Data Lags	4
Number of Indicators	6		

PERFORMANCE GOAL #1

Measures Adopted to Develop Transparent and Accountable Democratic Institutions, Laws, and Political Processes and Practices

FY 2004 Net Program Costs - $1,416,322,905

PROGRAM GOAL: ENGAGEMENT TO ADVANCE DEMOCRACY

Work with countries that are reforming government systems to create more transparent, inclusive, and participatory practices, through bilateral engagement, multilateral mechanisms, and non-governmental (NGO) channels.

Performance Indicator #1: Strengthened Local Governance

FY RESULTS HISTORY	**2001**	N/A (new indicator in FY 2003)
	2002	N/A (new indicator in FY 2003)
	2003	Seventy-six percent of USAID-assisted National Governments Devolving Authorities to Local Governments with the Corresponding Access to Financial Resources.
FY 2004 Data	**2004** Preliminary or Provisional **Results**	◆ Seventy-seven percent of USAID-assisted National Governments Devolving Authorities to Local Governments with the Corresponding Access to Financial Resources. In **Rwanda,** USAID's fiscal decentralization activity facilitated the development and dissemination of a new nationwide accounting system, training 98 percent of the nation's district accountants in several intensive sessions throughout the year. Of those trained, 75 percent are using the new system to submit regular reports to the central government. In **South Africa**, USAID has funded technical assistance programs to 94 of the country's 284 metropolitan, district, and local municipalities to improve strategic planning and community participation. USAID has funded the design and launch of a learning network of 16 of South Africa's 47 district municipalities and a Web-based newsletter, Hologram, through which all local governments share best practices. Already the Hologram subscriber list has grown to 3,500 and the Web site is averaging 550 visitors each month. ◆ Change in local government resources after USAID assistance: In **Rwanda,** USAID successfully strengthened the capacity of 11 district government boards in Kibungo Province to develop, implement, and monitor 32 community development projects, valued at approximately $1 million, including water supply and sanitization, school construction and rehabilitation, and market rehabilitation. In addition, the district tender boards of each target district government were able to transparently and efficiently manage community development and social infrastructure projects. At the same time, the government of Rwanda (GOR) provided $600,000 through the Common Development Fund to finance an additional 20 projects. In **Ghana,** district governments have seen real gains in their revenue mobilization amounts as a result of USAID programs. For example, in the targeted West Mamprusi district, officials reported that for the first three quarters of 2003, the district collected $5,600 more in taxes than it had last year at the same time. District officials attributed the gains to USAID-sponsored fee negotiation exercises with civil society and USAID's training for revenue collectors. Civil society representatives reported a greater willingness to pay taxes and levies when they had a say in the amount and better understood the intended uses of the revenue. In **Senegal,** USAID-sponsored training for local officials and community-based organizations (CBO) in participatory decision-making, transparent budgeting, and local development planning reached 97 of Senegal's 402 municipalities. With improved skills, local governments increased revenue and improve service delivery. For example, in the town of Kounkane in southern Senegal, a local working committee improved management of a large regional market, enabling the local government to collect record-setting tax revenues. These resources were invested to improve the safety and sanitary conditions at the market and further increase revenues. ◆ Data not collected in 2003 Annual Report – LAC will submit with 2004 Annual Report.
	Target	77% of USAID—assisted national governments devolving authorities to local governments with the corresponding access to financial resources
	Rating	**On Target**
	Impact	As a result of USAID's municipal governance program in El Salvador, which provides technical assistance and training to 22 municipalities to improve coverage of basic public services, transparent financial administration, and public participation in decision-making, the number of households receiving municipal services increased by nearly 44 percent between 1998 and 2003. Residents answered the municipalities' increased responsiveness by paying more of their taxes and fees; by the end of FY 2003, local revenue generation by these municipalities exceeded projected levels by 15 percent. These additional funds allowed for a 25 percent greater investment in local services and infrastructure.

PROGRAM GOAL: ENGAGEMENT TO ADVANCE DEMOCRACY *(continued)*		
Performance Indicator #2: Civil Society Functioning		
FY RESULTS HISTORY	**2001**	N/A (new indicator in FY 2003)
	2002	N/A (new indicator in FY 2003)
	2003	Ninety percent of USAID-assisted countries where Citizens' Concerns are Being Effectively Represented at the National and Local Levels.
FY 2004 Data	**2004** Preliminary or Provisional **Results**	Ninety percent of USAID-assisted countries where Citizens' Concerns are Being Effectively Represented at the National and Local Levels: ◆ In **Mali,** after four years of USAID assistance, 100 percent of targeted community organizations had developed the capacity to govern themselves democratically. Eighty-four percent of targeted Community Organizations (CO) had formed partnerships with local governments to deliver public services, whereas none existed as recently as 2000. In addition, a USAID evaluation found that 94 percent of targeted groups had developed sound management practices since 2000. ◆ In **Tanzania,** USAID achieved substantial progress in building the capacity of civil society organizations (CSO) with the ultimate goal of enhancing their effectiveness in advocacy. To gauge performance, USAID measures the number of CSOs that advance on a CSO capacity index. The index measures six components of organizational capacity. Average baseline scores and first year reassessment scores of a total of 34 groups appear in parentheses on a progressive scale of one to six: advocacy (2.4 increased to 3.1), governance (2.3 increased to 3.1), management (1.9 increased to 2.5), financial management (1.9 increased to 2.7), external relations (2.7 increased to 3.5), and sustainability (2.1 increased to 2.8). The three areas most commonly improved by NGOs, governance, advocacy, and external relations, were those in which USAID provided direct interventions. ◆ In **Uganda,** USAID's support for effective decentralization at the local government level gives more citizens an opportunity to participate in decision-making. All eight partner districts developed district development plans that included active participation by stakeholders and took into account sector interests. Citizen capacity to influence decisions at the local government level increased as the number of CSOs having a target agenda with their local governments increased from an average of four active CSOs in 2002 per target district to 12 in 2003. All USAID partner local governments showed significant improvements in fiscal management. Financial reports are being provided to the public by most local government at least two weeks before Council sessions and public hearings are being held on proposed local government budgets. ◆ In **Angola**, efforts to engage the government of the Republic of Angola (GRA) on policy reforms have resulted in some important gains for target populations, including women. The coalition on women's' rights to housing and other national and international organizations were successful in pressuring the government to approve a decree on the Resettlement and Reintegration of the Internally Displaced, providing a legal framework for government assistance to internally displaced persons (IDP), particularly important for improving the lives of families headed by women. Also as a direct result of this coalition's work, the Ministry of Social Affairs provided tents and food items for the temporary accommodation to displaced families, and the Governor of the province of Kwanza Sul provided roofing materials to families. After three years of GRA inaction, the National Assembly not only recognized the need to revise the draft law on the rights of people living with HIV/AIDS, but actively sought the participation of a USAID-supported CSO coalition in the revision process. Land advocates successfully stopped the occupation of pastoral community land to benefit large landowners, and facilitated successful and nonviolent negotiations between provincial agriculture authorities, commercial farmers, and community members on communities' compensation. ◆ In **Nigeria**, 46 out of 51USAID-supported groups, or 87 percent, reported positive outcomes from their engagement with policymakers. One of these groups, the Freedom of Information Coalition (FOIC), spearheaded the re-introduction of the Freedom of Information Bill, and successfully lobbied to secure sponsors for the Bill as well as first and second readings in the National Assembly. A USAID-supported coalition of women's groups also lobbied an Executive Committee examining the structure and functions of local government councils, presenting a credible voice on such issues as evidenced by the number of interviews given and public information sessions held during the review period.
	Target	The baseline for number of countries, established in FY 2004 is 30; 90% of USAID-assisted countries.
	Rating	**On Target**
	Impact	This indicator focuses on the role of civil society organizations to represent and advocate on the behalf of citizens. Civil society is a critical component of effective democracies at all times, but particularly between elections as a strong civil society is an instrument of citizen participation in political and economic decision-making.

PROGRAM GOAL: ENGAGEMENT TO ADVANCE DEMOCRACY *(continued)*		
Performance Indicator #3: Citizens Access to Justice Sector Expanded for All		
FY RESULTS HISTORY	**2001**	N/A (new indicator for FY 2004)
	2002	N/A (new indicator for FY 2004)
	2003	N/A (new indicator for FY 2004)
FY 2004 Data	**2004** Preliminary or Provisional **Results**	◆ Average total time it takes to process a legal case (in days) before USAID assistance and after USAID assistance. ◆ Number of legal experts trained through USAID assistance: In **Malawi,** USAID funds supported the training and activities of 720 volunteer community-based educators (over 30 percent are women), who together with 14 paralegals (four women), trained citizens and traditional leaders, as well as helped citizens resolve problems on a daily basis at a community level through mediation and advice. Anecdotal evidence and case studies in target areas document that these volunteers are an important community resource and a key ingredient to social capital in rural areas. In **Ethiopia,** working in partnership with the Federal Supreme Court, USAID supported training for 1,244 judges from all geographic regions of the country. This number represents 63.4 percent of all judges in Ethiopia. Of the total, 984 were Supreme and High Court Judges, 245 were First Instance Judges, and 15 were Addis Ababa Municipal Court Judges. The training provided in FY 2003 included second-round trainings in criminal law, labor law, tax law, family and succession law, contracts and torts, criminal procedure, and the execution of decrees. In **Rwanda,** USAID provided extensive ethics training to more than 100 officials involved in the Gacaca traditional justice process, which communities across the country are using to bring genocide perpetrators to justice and encourage reconciliation. ◆ Number of USAID sponsored mediation centers and justice centers in target areas: In **Zambia,** USAID-supported mediation and arbitration processes handled more than 1,900 legal disputes in 2003, up from zero in 2000. In **Rwanda,** USAID provided material support to the country's 106 Gacaca (traditional justice and reconciliation) jurisdictions in the form of vehicles, computers and other equipment, office furniture, and supplies. These vehicles and equipment are critical to the effective functioning of the Gacaca courts. ◆ Number of USAID-presence countries in which pre-trial detention decreases. ◆ Not collected by LAC in 2003 Annual Report – will submit with 2004 Annual Report.
	Target	The baseline year for analysis, 2004, indicates that 40.3% of countries with USAID presence will have citizens access to the justice sector expanded for all.
	Rating	This information is not available at this time, but will be updated in the FY 2004 USAID PAR Addendum in March 2005.
	Impact	With assistance from USAID, Bolivia now has an oral, adversarial criminal justice system that is significantly more transparent, efficient, and participatory. As of 2004, with three years' experience under the new legal code, average trial length has been reduced from seven years to 18 months; the cost of trials has decreased from an average of $2,400 to $400; and citizen confidence in the integrity of criminal processes has improved.

PROGRAM GOAL: ENGAGEMENT TO ADVANCE DEMOCRACY *(continued)*

Performance Indicator #4: Corruption Mitigated in Priority USAID Countries

FY RESULTS HISTORY	**2001**	N/A (new indicator in FY 2002)
	2002	Control of corruption percentile rank by region (regional baselines): Sub-Saharan Africa – 32.4; Middle East and North Africa – 54.7; South Asia – 41.5; East Asia – 44.4; Latin America and Caribbean – 54.9; Eastern Europe - 54.7; Former Soviet Union - 16.8.
	2003	N/A (data not collected annually)
FY 2004 Data	**2004** Preliminary or Provisional **Results**	◆ Control of corruption ranking for priority USAID countries – collect centrally. ◆ Number of people trained in anti-corruption through USAID assistance – New indicator for FY 2004: In **Benin,** USAID trained 58 government auditors from the Inspector General of Finance and the Chamber of Accounts on audit techniques. USAID's support urged these key audit institutions to perform 40 more audits than last year. This success adds to the improvement of governance at both local and national levels, and helps inculcate the culture of transparent and accountable practices in Benin. Even students were involved in anti-corruption campaigns; pilot awareness groups were set up in 50 schools to monitor corrupt practices in schools.
	Target	◆ The results specified above, which were collected on an Agency-wide basis, are considered the targets for FY 2004 for this indicator. Since it is a new Indicator for FY 2004, the process of assigning targets and reporting on their results is still in an early stage of maturity, and will improve as targets are formally established and tracked in FY 2005 and beyond.
	Rating	This information is not available at this time, but will be updated in the FY 2004 USAID PAR Addendum in March 2005.
	Impact	Corruption is defined as the misuse of public or private position for direct or indirect personal gain. Strengthening existing institutional mechanisms to encourage ethical behavior and prevent corruption and abuse is important, including checks on formal state actors such as civil service reform (i.e., restructuring incentives and punishments), limits on civil servants' discretion, strengthened audits and investigative functions, more effective internal procedures for enhanced oversight, improved operating systems in government institutions, and building a public constituency against corruption. As well, this is an important Millennium Challenge Account indicator, and so should be tracked for all relevant USAID presence countries.
NOTES		* The Control of Corruption Index measures perceptions of corruption through surveys that rate countries on: the frequency of "additional payments to get things done," the effects of corruption on the business environment, "grand corruption" in the political arena and the tendency of elites to engage in "state capture." Higher or positive values indicate greater corruption control. Index rankings are reported by the World Bank Institute every 2 years.

Performance Indicator #5: Constituencies Political Parties Represent

FY RESULTS HISTORY	**2001**	N/A (new indicator in FY 2004)
	2002	N/A (new indicator in FY 2004)
	2003	N/A (new indicator in FY 2004)
FY 2004 Data	**2004** Preliminary or Provisional **Results**	◆ Number of elections in USAID presence countries where no political party receives more than 75 percent of the vote – collect centrally. ◆ Number of women and minority candidates on ballots after USAID assistance. Number of women and minority candidates elected after USAID assistance. ◆ Number of political party members/officials trained through USAID assistance. ◆ Number of elections in USAID presence countries where no political party receives more than 75 percent of the vote. (five in ANE: Philippines, Mongolia, Sri Lanka, Afghanistan, Indonesia) ◆ LAC data not collected in 2003 Annual Report – will submit with 2004 Annual Report.
	Target	◆ The results specified above, which were collected on an Agency-wide basis, are considered the targets for FY 2004 for this indicator. Since it is a new Indicator for FY 2004, the process of assigning targets and reporting on their results is still in an early stage of maturity, and will improve as targets are formally established and tracked in FY 2005 and beyond.
	Rating	This information is not available at this time, but will be updated in the FY 2004 USAID PAR Addendum in March 2005.
	Impact	A representative and competitive multiparty system includes the following: 1) parties (through their statements, structure, and leadership) that demonstrate a commitment to transparent, inclusive, and accountable democratic political processes; 2) parties that adopt institutional structures that enable them to reflect the interests of those they choose to represent in government or in the opposition, and to compete effectively in periodic elections at all levels; and 3) political parties that enjoy the confidence of citizens, encourage citizen participation, and reinforce the legitimacy of democracy as a governing approach. This indicator will measure the strength and capacity of political parties assisted by USAID.

PROGRAM GOAL: ENGAGEMENT TO ADVANCE DEMOCRACY *(continued)*		
Performance Indicator #6: Status of Independent/Alternative Media		
FY RESULTS HISTORY	2001	First Year Data Collected: Four of 18 countries have a "Partly Free" or "Free" media (Freedom House Press Survey.*)
	2002	Four of 18 countries have a "Partly Free" or "Free" media.
	2003	Three of 18 countries have a "Partly Free" or "Free" media
FY 2004 Data	2004 Preliminary or Provisional Results	◆ USAID: Number of journalists trained (disaggregated by type of training). ◆ USAID: Number of non-government radio stations established through USAID assistance; ◆ In **Angola,** the Voice of America, funded through USAID, continues to broadcast timely and accurate information by presenting diverse viewpoints. For many Angolans, the radio station represents one of the only sources of information available besides Angola's national radio station. Through the U.S. Embassy, the U.S. government also provided Radio Ecclesia, Angola's only independent radio station, with funds to purchase repeaters that extend the range of their broadcasts.
	Target	◆ The results specified above, which were collected on an Agency-wide basis, are considered the targets for FY 2004 for this indicator. Since it is a new Indicator for FY 2004, the process of assigning targets and reporting on their results is still in an early stage of maturity, and will improve as targets are formally established and tracked in FY 2005 and beyond.
	Rating	This information is not available at this time, but will be updated in the FY 2004 USAID PAR Addendum in March 2005.
	Impact	A free and independent media is an imperative for democratic, transparent governance. It provides essential information to the people, both informing their political decisions (including voting) and acting as a means for the people to express their views.

VI. PROGRAM EVALUATIONS AND PART REVIEWS

One program evaluation was conducted in FY 2004 that pertained to this Strategic Goal.

1) Foreign Assistance: U.S. Anticorruption Programs in Sub-Saharan Africa Will Require Time and Commitment, GAO-04-506, April 26, 2004

USAID's *Balkan Trust for Democracy Alliance increases stability in southeast Europe.*

Balkan Trust

An example of an alliance that is working towards building regional stability and democracy is the Balkan Trust for Democracy. This alliance is a grant-making initiative to mitigate regional and ethnic rivalries in southeast Europe by supporting good governance and increased civic participation. An $11 million USAID investment leverages an additional $18 million from the German Marshall Fund, Charles Stewart Mott Foundation, and the government of Greece. By awarding grants to various civic bodies and local and national governments, the Trust aims to strengthen democratic institutions and political processes for long-term regional stability.

STRATEGIC GOAL 5: ECONOMIC PROSPERITY AND SECURITY

Strengthen World Economic Growth, Development, and Stability, While Expanding Opportunities for U.S. Businesses and Ensuring Economic Security for the Nation

I. PUBLIC BENEFIT

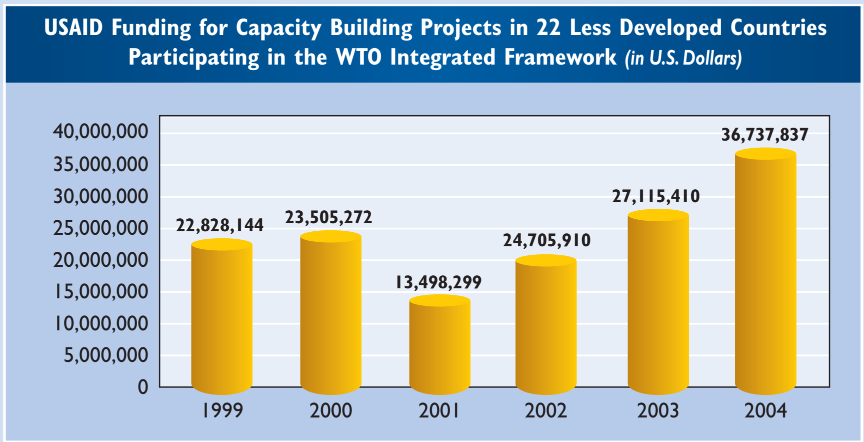
The President's National Security Strategy aims to "help make the world not just safer, but better." National security and global economic prosperity are inextricably linked. Americans have a vital interest in a strong international economy that advances prosperity, freedom, and economic opportunity worldwide. Economic growth creates new jobs and higher incomes for Americans and for citizens of other nations, and is vital for ensuring the economic security of the United States. Creating new economic opportunity through industry, agricultural development, and trade will reduce the suffering from poverty and hunger that currently plagues 1.2 billion people worldwide. It will also improve natural resource management and environmental quality, and create institutional and human capacity to build equitable and sustainable economies. USAID, in conjunction with the public and private sectors in developing nations, works closely with other U.S. agencies, businesses, and NGOs, as well as with other international donors, to build strong and dynamic economic systems based on free trade bringing benefits and raising incomes of U.S. and host country businesses and workers.

The remarkable growth and prosperity of the developed economies have demonstrated the strength of a dynamic, open international trading system based on free trade and free markets, good governance, and the rule of law, which is a key element of sustainable development. Conversely, the lack of economic opportunity for many around the world is an underlying factor for a number of the grave challenges the United States faces. Regional instability, social and environmental destabilization, food insecurity, unemployment, and humanitarian crises all feed on, and further marginalize, vulnerable populations. USAID's efforts to promote trade and sustainable economic development have a direct positive effect on these vulnerable populations while also strengthening the U.S. economy.

As the world's largest importer and exporter, the United States has a significant impact: trade reached $2.6 trillion in FY 2003. Exports account for roughly 10 percent of gross domestic product (GDP), but contribute much more in terms of GDP growth, as export growth contributed about 15 percent of U.S. economic growth during the past decade. U.S. workers in export sectors have higher than average wages, and one of every five U.S. manufacturing workers depends on exports for a job. The capacity of developing countries to buy U.S. exports depends, in turn, on their ability to expand their exports to the major developed countries.

Imports by the United States make competitive, lower cost goods available to U.S. consumers and quality supply components available to U.S. industries. The United States is the largest importer from developing countries, importing goods worth over $680 billion in 2003, more than 10 times the value of the total of all official development assistance to developing countries from all donors. Furthermore, a productive agricultural sector is critical to overall economic growth, trade expansion, and increased income-earning opportunities, not to mention food security. Equally important is increased access to infrastructure—communications, transport, water, energy—and it underpins the expansion and improvement of services in all other sectors of development. Continued growth and the economic opportunity gained from open trading systems, good governance and the rule of law, critical infrastructure, foreign investment, U.S. development assistance, and international cooperation on financial issues promotes political liberty abroad and U.S. national security at home.

II. SELECTED PERFORMANCE TRENDS



III. RESOURCES INVESTED

IV. ILLUSTRATIVE EXAMPLE OF SIGNIFICANT ACHIEVEMENT

Madrid International Donors Conference on Iraq Reconstruction

The October 2003 Madrid International Donors Conference on Reconstruction in Iraq, attended by the USAID Administrator, was the most successful donors conference ever, raising over $32 billion in pledges. The Department of State and USAID worked closely with the Departments of Defense and Treasury in consulting with other countries, the United Nations, and international financial institutions to help organize the conference, which was attended by 73 countries. Pledging included $13.5 billion from non-U.S. sources. Of this non-U.S. component, $5.5 billion was pledged by the World Bank and International Monetary Fund (IMF) in lending programs. The remaining $8 billion was pledged by 36 countries and the European Commission. The largest previous pledging conference had raised $5-6 billion.

Millennium Challenge Corporation

FY 2004 was a year that brought the Millennium Challenge Account (MCA), the Administration's innovative approach to development assistance, into existence. The Agency played a major role in these efforts, including by helping to develop the organizational and operational principles of the MCA, helping to draft the proposed legislation that the President presented to Congress, and then working with the Senate and House to gain support and acceptable legislation which was finally passed in the second quarter of FY 2004. On several occasions, senior Agency officials testified before Congress to explain and build support for the Millennium Challenge concept. USAID and the State Department were the lead agencies in outreach efforts to gain the support of business and academic groups, non-governmental organizations, and the general public for the MCA legislation.

V. PERFORMANCE RESULTS

SUMMARY OF PROVISIONAL OR PRELIMINARY RESULTS — STRATEGIC GOAL 5			
Total Goals and Indicators		**Performance Summary**	
Number of Performance Goals	3	Number of Targets Met	2
Number of Program Goals	5	Number with Data Lags	3
Number of Indicators	6		

PERFORMANCE GOAL #1

Institutions, Laws, and Policies Foster Private Sector Growth, Macroeconomic Stability, and Poverty Reduction.

FY 2004 Net Program Costs - $2,812,371,385

PROGRAM GOAL: SCIENCE-BASED DECISION-MAKING AND STANDARDS DEVELOPMENT		
Strengthen ties with neighbors and key allies, and facilitate access to international markets for new technologies.		
Performance Indicator #1: Effectiveness of Contacts Between Science & Technology (S&T) Communities and Policymakers		
FY RESULTS HISTORY	**2001**	N/A (new indicator in FY 2002)
	2002	◆ U.S. government organized and sponsored four roundtables on biotechnology and nanotechnology issues. ◆ U.S. government (USAID) launched an ag-biotech initiative, Collaborative Agricultural Biotechnology Initiative; mobilizing new science and technology (S&T) to reduce poverty and hunger.
	2003	◆ To promote developing country access to and management of new scientific tools such as biotechnology for improving agriculture productivity, environmental sustainability and nutrition, USAID launched a comprehensive set of activities under the Collaborative Agricultural Biotechnology Initiative (CABIO). These activities include research and technology development to better address developing country crop and animal production needs, as well as development of policy and regulatory frameworks. Developing science-based biosafety systems was undertaken by bringing scientists and policy makers together to provide the basis for sound decision-making on biotechnology in agricultural development. ◆ USAID sponsored a global meeting of researchers to consider the relevance and importance of social sciences to agricultural and natural resources research aimed at alleviating poverty and enhancing environmental sustainability. The outcome strengthened the support for economics and social sciences in the $400 million CGAIR global research program. ◆ USAID sponsored an Asia regional agricultural biotechnology priority setting meeting in New Delhi, India, bringing scientists and policy makers from the U.S. and from across the region to discuss key objectives and steps needed to bring the benefit of new science to increasing productivity among smallholder farmers. Key objectives identified included nutritional enhancement and tolerance of abiotic stress (e.g., drought, salinity). ◆ USAID joined with the Rockefeller Foundation and DFID (UK) to establish the African Agricultural Technology Foundation to sponsor the sharing of research technologies between the public and private sectors in ways that bring the latest science to bear on solving problems affecting the livelihood of millions of African farmers. The prime objective is to ensure a conducive policy and technology management environment by building sound stewardship of biotechnology on the ground in Africa. ◆ USAID joined with the International Rice Research Institute to implement the International Rice Functional Genomics Consortium and the Cereals Comparative Genomics Initiative. Both efforts focus on linking leading U.S. laboratories and universities in a global effort aimed at using rice science to solve key problems facing rice production in ways critical to global food security. ◆ USAID worked with CGAIR partners and leading U.S. researchers to establish the Harvest Plus Challenge Program aimed at developing nutritionally enhanced strains of rice, wheat, maize, beans, cassava and sweet potato. The program has since attracted $25 million in support from the Gales Foundation, as well as the World Bank and USAID.
FY 2004 Data	**2004** Preliminary or Provisional **Results**	◆ Participated in 6 bilateral initiatives to involve developing country partners in climate change science and technology cooperation. ◆ Through UAID leadership, the U.S. signed a letter of intent to collaborate in agricultural biotechnology with India. India is poised to be a leader on agricultural biotechnology among developing countries and thus can play an influential role in demonstrating the benefits of biotechnology. ◆ In collaboration with USAID, USAID organized a meeting of West African ministers to discuss agricultural science and technology as a tool for economic development and food security. An outcome of that conference has been increased interest in biotechnology and further discussions with the U.S. on collaboration in this area. ◆ USAID and USDA jointly sponsored a meeting held at the University of California at Davis to strengthen research cooperation between the U.S. research community and the international agricultural and natural research centers. USAID also supports scientific liaison officers from the U.S. research community with 16 international agricultural research centers whose mission is to achieve sustainable food security and reduce poverty through research and research-related activities. ◆ The long-term agricultural and natural resource management research funded by USAID and other donors continues to provide important benefits for both producers and consumers in developing countries. Benefits generated include new, higher-yielding rice varieties in Latin America, Asia, and West Africa; higher-yielding wheat in Asia, North Africa, and Latin America; and cassava mealybug biocontrol in Africa. ◆ USAID convened a U.S.-India Joint Working Group on Agricultural Biotechnology, engaging USDA, State, NSF and leading U.S. scientists with a counterpart team drawn from the Government of India leadership and leading Indian biotechnology research organizations. A joint program of work is emerging targeting Golden Rice, drought tolerant rice and virus resistant strains of key horticultural crops.

(continued on next page)

PROGRAM GOAL: SCIENCE-BASED DECISION-MAKING AND STANDARDS DEVELOPMENT *(continued)*		
Performance Indicator #1: Effectiveness of Contacts Between Science & Technology (S&T) Communities and Policymakers *(continued)*		
	Target	◆ The results specified above, which were collected on an Agency-wide basis, are considered the targets for FY 2004 for this indicator. Since it is a new Indicator for FY 2004, the process of assigning targets and reporting on their results is still in an early stage of maturity, and will improve as targets are formally established and tracked in FY 2005 and beyond.
	Rating	This information is not available at this time, but will be updated in the FY 2004 USAID PAR Addendum in March 2005.
	Impact	This indicator was chosen because the language in UN economic development resolutions reflects prevailing policy norms. UN development organizations are major players in economic development. The types of programs and the nature of recipients' requests for assistance will demonstrate the degree of acceptance of MCA principles.

PROGRAM GOAL: PRIVATE SECTOR CAPACITY		
Improve Private Sector Capacity/ Growth, Including Rural Competitiveness and Micro and Small-Enterprise Development.		
Performance Indicator #1: Enterprise Level Competitiveness		
FY RESULTS HISTORY	**2001**	N/A (new indicator in FY 2003)
	2002	N/A (new indicator in FY 2003)
	2003	◆ 1,338,864 loans provided as a result of USAID assistance (disaggregated by type of recipient, including historically disadvantaged groups). ◆ $363,054,541 in loans provided as a result of USAID assistance (disaggregated by type of recipient, including historically disadvantaged groups). ◆ 89,913 firms directly participating in USAID sponsored activities to strengthen their competitiveness/productivity (annually).
FY 2004 Data	**2004** Preliminary or Provisional **Results**	◆ Results for 2004 to be determined by from Missions' Annual Reports.
	Target	◆ 2,000,000 loans provided as a result of USAID assistance (disaggregated by type of recipient, including historically disadvantaged groups). ◆ $400 million in loans provided as a result of USAID assistance (disaggregated by type of recipient, including historically disadvantaged groups). ◆ 90,000 firms directly participating in USAID sponsored activities to strengthen their competitiveness/productivity (annually).
	Rating	This information is not available at this time, but will be updated in the FY 2004 USAID PAR Addendum in March 2005.
	Impact	Firms in developing countries typically lack access to credit through the formal financial system for expansion. Providing credit directly or mobilizing bank financing for such firms is critical to achieving economic growth and associated job creation.

PERFORMANCE GOAL #2

Increased Trade and Investment Achieved through Market-Opening International Agreements and Further Integration of Developing Countries into the Trading System

FY 2004 Net Program Costs - $226,208,664

PROGRAM GOAL: CREATE OPEN AND DYNAMIC WORLD, REGIONAL AND NATIONAL MARKETS

Increase capacity of countries to participate in global, regional, and national trade, and increase market access for U.S. goods, services, and enhance protection of intellectual property.

Performance Indicator #1: Level of Trade Capacity of USAID-Assisted Countries		
FY RESULTS HISTORY	2001	N/A (new indicator in FY 2003)
	2002	N/A (new indicator in FY 2003)
	2003	First Year Data Reported: $161,979,374 increase in exports of countries where USAID provides trade development assistance (from national sources collected on a calendar year basis).
FY 2004 Data	2004 Preliminary or Provisional Results	This information is not available at this time, but will be updated in the FY 2004 USAID PAR Addendum in March 2005.
	Target	◆ The results specified above, which were collected on an Agency-wide basis, are considered the targets for FY 2004 for this indicator. Since it is a new Indicator for FY 2004, the process of assigning targets and reporting on their results is still in an early stage of maturity, and will improve as targets are formally established and tracked in FY 2005 and beyond.
	Rating	This information is not available at this time, but will be updated in the FY 2004 USAID PAR Addendum in March 2005.
	Impact	Increased exports spur economic growth, create jobs, increase incomes, raise standards of living, and reduce poverty. The resulting economic growth and poverty reduction improves social and economic stability, creates new markets for U.S. goods and services, and contributes to regional and global security.

Performance Indicator #2: Number of USAID-assisted Countries in Some Stage of WTO Accession and Compliance		
FY RESULTS HISTORY	2001	N/A (new indicator in FY 2003)
	2002	N/A (new indicator in FY 2003)
	2003	First Year Data Reported: 28
FY 2004 Data	2004 Preliminary or Provisional Results	29 (5 in ANE Region: Nepal, Cambodia, Lebanon, Vietnam, and Yemen. Iraq has observer status, and Afghanistan put in application for observer status.) 16 of 16 LAC presence countries are WTO members.
	Target	◆ The results specified above, which were collected on an Agency-wide basis, are considered the targets for FY 2004 for this indicator. Since it is a new Indicator for FY 2004, the process of assigning targets and reporting on their results is still in an early stage of maturity, and will improve as targets are formally established and tracked in FY 2005 and beyond.
	Rating	**On Target**
	Impact	WTO accession means access to markets more open and predictable, aligns developing country commercial law regimes with international norms, expands the international rule of law, improves transparency and economic governance, and reduces opportunities for corruption.

PERFORMANCE GOAL #3

Enhanced Food Security and Agricultural Development

FY 2004 Net Program Costs - $372,116,870

PROGRAM GOAL: AGRICULTURE-LED INCOME OPPORTUNITIES EXPANDED		
Capacity of Organizations and Individuals to Support the Production and Distribution of Food and Marketable Agricultural Goods.		
Performance Indicator #1: Level of Agricultural Sector Growth		
FY RESULTS HISTORY	2001	N/A (new indicator in FY 2004)
	2002	N/A (new indicator in FY 2004)
	2003	N/A (new indicator in FY 2004)
FY 2004 Data	2004 Preliminary or Provisional Results	1.* 172 agricultural technologies made available for transfer through USAID programs. 2. Nine or ten countries undertook field trials of a biotechnology crop. 3.* 4,171 rural organizations assisted by USAID 4.* 116,353 male individuals received agricultural training. 5.* 98,422 female individuals received agricultural training.
	Target	1.* 109 agricultural technolgies made available for transfer through USAID programs. 2. Number of developing countries undertaking field trials and/or commercial approval of bioengineered crops: 10. 3.* Number of rural organizations assisted by USAID: 2,288. 4.* 46,554 male individuals to receive agricultural training. 5.* 37,681 female individuals to receive agricultural training.
	Rating	**Exceeded Target**
	Impact	Biotechnology capacity: Expanding the number of countries who are integrating biotechnology into agricultural and food systems will both improve global acceptance of these crops and broaden the economic and environmental benefits of this technology, particularly to developing countries. USAID contributes to this in two ways: in the development of new bioengineered crops aimed at the needs of developing countries, and by support for the development and implementation of sound biotechnology regulatory systems which facilitate field trials, and eventually, commercialization. In 2004, Burkina Faso undertook their first field test of a bioengineered crop, insect-resistant cotton. This step has widely been watched by other developing countries, particularly those in West Africa, and has served as a stimulus to other countries to move forward on biotech. For example, the Mali government has requested support from USAID to develop their biosafety regulations to allow for field trials of biotech cotton there as well. As a result of this assistance, it is expected that bioengineered cotton will begin field trials in Mali in December 2004 or early 2005. Developing capacity of producer organizations: Developing the capacity of producer organizations in rural areas is key for giving individual member farmers increased market power and influence on policy-making with their elected leaders. Producer organizations are also the focal point for giving farmers access to improved production, storage, and processing technologies leading to increasing value – added to agricultural production and thus individual or group income. The achievement of this result is important because it creates democratic governance capacity at the local level while increasing income in rural areas.
NOTES	* Data from eleven missions and Washington-based Initiative to End Hunger in Africa (IEHA) activities.	

PROGRAM GOAL: FOOD SECURITY		
Ensure that vulnerable populations have access to food.		
Performance Indicator #1: Number of People Receiving Title II Food Assistance		
FY RESULTS HISTORY	2001	68,849,000 people received Title II Food Assistance.
	2002	86,499,000 people received Title II Food Assistance.
	2003	124,019,000 people received Title II Food Assistance.
FY 2004 Data	2004 Preliminary or Provisional Results	96,387,000 people receiving Title II Food Assistance. ◆ Per capita food production index: 128.4 ◆ Yield per hectare (kg/ha) of cereal crops in developing countries: 2,786.6
	Target	19,000,000 people receiving Title II Food Assistance. ◆ Per capita food production index: 126.1 ◆ Yield per hectare (kg/ha) of cereal crops in developing countries: 2,821.1
	Rating	Exceeded Target
	Impact	The broadest measure of USG impact on food insecure populations is the number of people receiving food assistance.

VI. PROGRAM EVALUATIONS AND PART REVIEWS

One program evaluation was conducted in FY 2004 that pertained to this Strategic Goal.

1) "USAID Technical Assistance in Fiscal Reform" (8 Case Studies), August 2004, which can be found at: www.fiscalreform.net/usaid_ta/usaid_ta.htm

Entra 21 Alliance

Disadvantaged youth are trained with IT skills in order to prepare them for employment

In working to achieve economic prosperity and security in Latin America, the $28 million Entra 21 Alliance fuels Latin America's information technology (IT) economy by bridging the gap between jobs and young people. The alliance establishes task forces to provide internships for disadvantaged youth to prepare them for formal employment. Twelve thousand students will be trained with competitive IT skills in 26 Latin American countries. As one 18-year-old trainee, a father of two, says, "These days I find work as a gardener. I'm not able to find much more because I'm not qualified. I don't have technical training, and I don't hold a degree. I like computers, and I like that this program is open to people like me, with little resources to go elsewhere." USAID's alliance partners include Inter-American Development Bank, International Youth Foundation, Lucent Technologies, Merrill Lynch, and Microsoft.

Coffee Alliance

Since April 2003, the Coffee Corps Alliance has provided 47 pro bono coffee consultants and devoted over 5,000 hours of technical assistance in 16 countries in Africa and Latin America. In cooperation with the Coffee Quality Institute, this alliance has supported transparent price mechanisms for coffee. This alliance employs the Q-Auction, an innovative online means of connecting quality coffee growers with buyers, that delivers 75 percent of revenues back to producers and two percent to a national fund for community development. A critical success component of this alliance is the Coffee Corps, a group of volunteers passionate about coffee and willing to share their time and talents with coffee farmers and coffee communities. The Coffee Quality Institute works with groups in producing countries in Africa and Latin America to identify business and humanitarian needs with which Coffee Corps volunteers can make a difference.

Coffee Alliance helps farmers in Zambia grow high quality coffee.

Food Resources Bank Alliance

Alliances support by USAID in FY 2003 capitalized on FY 2002 efforts, such as the Foods Resource Bank Alliance. This innovative alliance mobilizes the goodwill donations of technical expertise and commodities from farmers, agricultural firms, and church groups throughout the United States to address international food security challenges in Kenya, Ghana, Zambia, Malawi, and 18 additional countries. Foods Resource Bank (FRB) is a faith-based organization that conducts outreach to U.S. farmers on food security issues in the developing world. In its short five-year existence, FRB has initiated 154 U.S.-based rural community growing projects. These are "twinned" with 93 suburban/urban communities (for financial support) to produce over 5,000 acres of marketable agricultural crops. These commodities are sold in the United States and the funds used to implement smallholder sustainable food security programs in the developing world. Because administrative costs are funded by the organization's separate fundraising, 100 percent of the revenue generated by community growing projects goes to overseas programming. USAID then matches the amount of funds raised to double total program resources. Each program serves approximately 10,000 people at an annual cost of about $4.00 per person, or one cent per day. This is not emergency feeding or disaster relief; rather it initiates and develops a sustainable food security system that allows people to know the dignity and pride of feeding themselves and their families.

African communities learn sustainable food production techniques funded by donations from U.S. farming communities.

Biosphere Station on Meso American Reef Demonstrates Clean and Sustainable Techniques for Meeting Energy, Water, and Sanitation Needs

When Mexican officials decided to build a field station by a coastal reserve rich in coral reefs along the southern coast of Mexico, there were no energy sources or fresh water, nor a way to dispose wastewater safely. A combustible fuel generator and untreated wastewater or a septic tank carried back to shore by boat could have damaged the environment that the field station was meant to protect.

To address this concern, a public-private team that included local fisherman and international energy experts put in place model systems to generate renewable energy; collect, store, and filter rainwater; and treat and dispose wastewater. Through the Mexico Renewable Energy Program USAID contributed the hardware, energy and water efficiency devices, and technical expertise in renewable energy systems to support the pilot

Banco Chinchorro field station workers lift solar collectors to the roof for installation in July 2004. Photo credit: Arturo Romero, Sandia National Laboratories effort. Additionally, both USAID/Mexico and the EGAT Energy Team contributed funding. With the current success of this project, plans are already underway to replicate the model for 15 fishermen cabins and a small ecotourism lodge on the reserve.

Banco Chinchorro Biosphere Reserve has the largest and best representation of coral reefs among all protected marine areas in Mexico. However, its environmental balance is threatened by tourism, over-fishing, contamination, and the existence of non-native species. To balance conservation and use effectively, the Mexican National Commission of Natural Protected Areas (CONANP) decided to build a field station on the reserve at Cayo Centro. The station's purpose is to manage and protect the natural resources of the area, support scientific research, and share knowledge about the area.

The isolated and geological location of the field station meant that the only connection to infrastructure and amenities is a four-hour, once-weekly boat service to and from the coastal port of Mahahual. Conventional energy sources would damage the environment and be costly; therefore, a team committed to the environment, including CONANP, World Wildlife Fund, Quintana Roo Society for Renewable Energy, USAID, and local fishermen proposed a sustainable and replicable model, that would affordably allow the Cayo Centro Field Station to blend in with the environment. Clean renewable energy systems were installed along with energy-efficient appliances; a rainwater collection, storage and filter system was put in place together with water conservation devices; and a wastewater treatment system was employed to neutralize water before entering the environment.

This field station is a model for all research, guard, education and visitor centers of the Mesoamerican Barrier Reef System to consider as well as local fisherman, coastal homeowners, mainland park personnel, and ecotourism entrepreneurs.

Slum Electrification; 1.2 Million People Receive Legal Access to Energy in Ahmedabad, India

Local CBO (NGO) President with new meter

The EGAT Energy Team worked with the India Mission, the Ahmedabad Electric Company (AEC), and local non-governmental organizations (NGO) to develop and promote an approach to provide safe, reliable, and legal electric service connections to approximately 1.2 million slum dwellers (233,000 households). USAID's mission was to provide matching seed funds to cover one-third of the costs for the pilot phase of this activity which reached approximately 3,000 households. The pilot demonstrated that losses from theft could be reduced entirely and that poor households are able and willing to pay a connection fee and their utility bills when provided quality electrical service. Because of the success of the pilot phase, the AEC used its own funds to expand the slum electrification program to another 30,000 households and plans to provide service to 200,000 additional households by March 2007.

In Ahmedabad the term "slum" is taken to cover very poor households living in homesteads without formal tenure; the slums themselves are anywhere from a few years to one hundred years old.

The historical approach for electrifying households in slums required that the households provide legal documents proving tenure and to cover 100 percent of the cost of stringing feeder lines from the distribution system to a residence. Few households could prove legal tenure, and fewer still could raise the upfront costs of connecting to the grid.. Benefits of electricity to households are so great that an informal (read: illegal) system of electricity distribution developed in neighborhoods. Households paid an illegal service provider to provide a connection. The Ahmedabad Municipal Corporation (AMC) has a slum upgrading project (the Parivartan scheme) which seeks to improve the lives of the approximately 25 percent of the city who live in slums. The Parivartan scheme provides improved water supply (private household connections), sanitation facilities, stormwater drainage, street lighting, and solid waste management; but it does not provide or seek to improve the condition of electrical distribution system in these neighborhoods. However, it does provide for a form of tenure the "No Objection Certificates.". . Here the role of the NGOs were essential in helping to bridge the gap between the language that the AMC intended to use and the language that the AEC required to protect its investments in slum areas and to protect itself against liability.

One of the principal concerns of the AEC was would consumers pay to connect and would they pay their periodic utility bills or would infrastructure investments result in an increased capacity to steal electricity. Likewise, from the consumer perspective the question was would paying the connection fee actually result in the AEC delivering a quality (affordable and reliable) service. USAID worked with the AEC, the NGOs and the communities to address this dilemma by providing seed money to pilot a program that tapped into the preexisting trust and experience that the NGOs had with both the slum households and with the AEC to bridge the lack of trust and confidence that existed between the utility and their customers.

Family with their newly installed electric meter

Several key lessons were learned from the pilot. 1) Monthly charges for electrical service for those households that had been previously relying on illegal service providers decreased by almost 50 percent 2) Households are willing and able to pay connection and usage charges 3) Electrifying entire neighborhoods allowed the AEC to reap substantial economies of scale and to substantially reduce the average connection fee.

In addition to reduced electrical costs, the benefiting households of the pilot project also could now extend their work or study time in the evenings, use electrical equipment to increase productivity, and partake of leisure activities. They also noted an increase in quality of electrical service (more hours and stable voltage) and the consequent reduced damage to appliances. In addition, community associations and NGOs earned income by engaging women to provide meter reading services and by loaning funds for the connection charges. These funds were recycled within the community to provide daycare, adult education, and other social services. Perhaps the most critical benefit of the pilot project was to develop an experience of trust between the utility and its staff and the slum dwellers.

As a result of the success of the pilot project which reached nearly 3,000 households, the AEC used its own funds to provide safe, reliable, and legal electrical service to an additional 30,000 households and has plans to provide service to an additional 200,000 households by March 2007.

The Ahmedabad Slum Electrification project is part of the Energy Team's larger strategy for improving access to, and increasing the consumption of, safe and reliable modern energy to increase the health, welfare, and productivity of poor communities.

EGAT Energy Team Supports Solar Electrification of African Clinic Where AIDS Was Discovered

USAID's EGAT Energy Team provided funding for Solar Light for Africa. This is a faith-based non-governmental organization (NGO) collaboration between U.S. and African churches, NGOs, and governments to provide light and energy sources for rural Africa using the natural power of the sun. Solar Light for Africa's primary project for 2004 is to provide electricity with solar photovoltaic panels to the Kakuuto Hospital located in the Rakai District of Uganda where AIDS was first discovered. This project will not only provide clean electricity but also provide pure spring water to the hospitial via 3.2 kilometers of pipe, solar powered pumps, and site storage tanks. A real benefit to the villages between the spring and the hospital is that they will also be provided access to the water through strategically placed spigots.

In addition to the Rakai hospital project, the goal for 2004 is to install 100 other solar systems in both Uganda and Tanzania. The installations will be in rural health clinics, community centers, and schools. As many solar installations as possible will be installed by the combined American and East African youth teams. To date, 1,400 solar systems have been installed since 1997.

This will be the sixth consecutive year that SLA has organized a mission. On the American side, the participants will include solar engineers, environmental experts, dentists, senior high students, and college students who will work with East African youth, technicians and noted African officials.

The SLA is renowned for its work in rural areas to provide clean energy for health care facilities, schools, churches, and private homes in rural Africa. "One of my fondest memories is of a young mother giving birth to her child, in the dark of night, with the assistance of solar light. Had it not been for this solar installation at the Birthing Center, the mid-wife would have delivered the baby, to the best of her ability, utilizing the meager light of one kerosene lantern that produces noxious black fumes. Instead, the baby's first breath was of pure air. The mother named her son, Solar."

Sherry Rainey, Former Youth Mission Participant
Tallahassee, Florida

Microeconomic Reform

Microeconomic reform plays a large and growing role in USAID's programs to promote economic growth overseas. Almost every USAID field mission has implemented microeconomic reform programs, with extensive activities in well over half of the 75 countries where USAID has a presence. Both the number and breadth of microeconomic policy reform activities are increasing in every region and have reached a cumulative funding total of nearly $3 billion.

USAID field missions have initiated more than six hundred microeconomic reform activities, covering the following nine categories of policies and regulations:

- Investment approvals and processing
- Business operation
- Contract enforcement, dispute resolution, bankruptcy
- Labor markets
- Markets for credit or equity finance
- Import/export procedures
- Intellectual property rights
- Sector-specific regulation affecting investors
- Local/regional and national tax regimes

The impact of USAID's assistance in microeconomic reform is exemplified by its work in Jordan. As one of its projects following an Investors' Roadmap analysis, USAID supported the government in re-engineering its company registration process. As a result, the number of required forms reduced from five to one and processing time decreased from over two weeks to 30 minutes. Similar successes are found throughout USAID's programs, including in Morocco's court system, where the time to complete a case dropped from 227 days in 2001 to 97 days in 2003. In Ghana, because of USAID's intervention, the number of days to clear goods at the port is currently 3 days, down from 10 days in 2000.

The publicity generated by the recent publication of the World Bank's *Doing Business in 2004* has galvanized support for microeconomic reform throughout the world. *Doing Business* complements the World Economic Forum's *Global Competitiveness Report*, further expanding the resources available to countries and USAID field missions for designing and implementing effective microeconomic reform projects. The benchmarking approach for these publications stimulated peer pressure and spurs governments to action, providing an excellent opportunity for USAID to capitalize on this new momentum for reform.

STRATEGIC GOAL 6: SOCIAL AND ENVIRONMENTAL ISSUES

Improve Health, Education, Environment, and Other Conditions for the Global Population

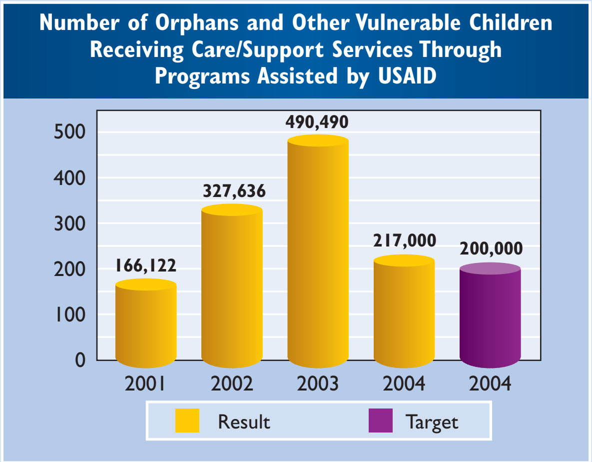
I. PUBLIC BENEFIT

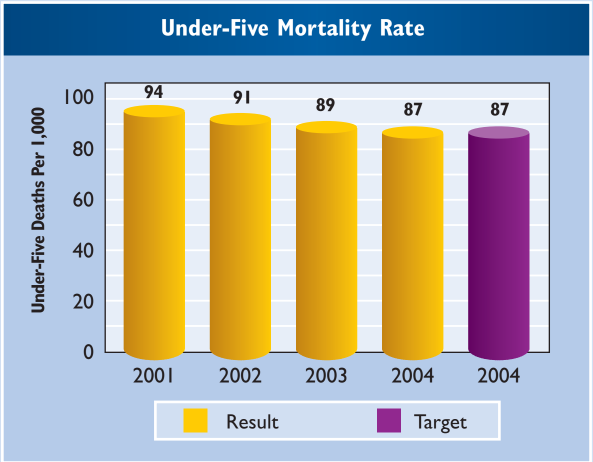
Disease, poverty, displacement, lack of education, and environmental degradation destroy lives, ravage societies, destabilize regions, and cheat future generations of prosperity. While these social and environmental problems are daunting, ample experience at the international and national levels demonstrates that progress is possible through concerted efforts. USAID's health sector investments have resulted in: reductions in HIV transmission in high-priority countries and improved quality of life for persons living with HIV/AIDS; more couples being able to decide the number and spacing of their children; more women having access to skilled care at childbirth; more children being immunized and surviving common childhood illnesses; expanded access to effective prevention and treatment measures for infectious diseases like malaria and tuberculosis; and significant progress in eradicating polio worldwide. In the environmental area, the United States is supporting clean energy technology and climate change mitigation, as well as biodiversity, forestry and other natural resource management issues as a productive way to promote sustainable environmental development, thereby reducing the strains on society that lead to conflict, and even terrorism. These improvements in health, survival, and environment are enabling the citizens of developing countries to contribute to their own progress and to national prosperity.

The United States has humanitarian, security, and economic interests in helping countries tackle social and environmental problems. Left unresolved, these problems will aggravate social and political instability and could reverse the development advances made over the last several decades. By confronting these problems, the U.S. can save lives, reduce human suffering, lay the groundwork for sustainable economic development, forestall the conditions that sow the seeds of terrorism, and prevent adverse conditions from spilling across our borders.

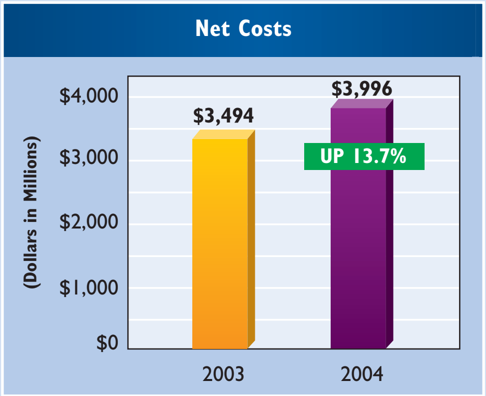
USAID will build public-private partnerships that leverage resources, strengthen international cooperation, mobilize domestic resources and help other countries build their institutional capacity to manage these problems. USAID will encourage good governance and greater civil society involvement, necessary for making sustainable gains against social and environmental problems by bringing problems to light, enabling varied, creative solutions in the context of public debate, and holding governments and other institutions accountable for results.

II. SELECTED PERFORMANCE TRENDS





III. RESOURCES INVESTED



IV. ILLUSTRATIVE EXAMPLE OF SIGNIFICANT ACHIEVEMENT

Africa

In Africa, USAID supports basic education programs in 15 countries: Benin, Democratic Republic of the Congo (DRC), Djibouti, Ethiopia, Ghana, Guinea, Malawi, Mali, Namibia, Nigeria, Senegal, South Africa, Sudan, Uganda, and Zambia. In addition, Missions in Kenya, Tanzania, and Madagascar are adding education to their country programs. Within the Africa Bureau, several important cross-cutting themes are targeted: 1) HIV/AIDS—in particular, mitigating the impact of this disease on Africa's education systems; 2) gender equity—increasing educational opportunities for girls, and 3) increasing community participation in education, with an emphasis on local level school ownership and management. Focus is also concentrated on promoting innovative programming, developing effective schools and classrooms, building capacity at both national and local levels, and promoting sustainable systemic reform. A particular initiative, the Africa Education Initiative (AEI) focuses on increasing access to quality education through the provision of scholarships for girls, improved in-service and pre-service teacher training, development and distribution of textbooks and related learning materials, and increased involvement of African communities in the education of their children.

Since 1990, countries have achieved strong enrollment gains and much greater equity for girls: there were 12 million more total children enrolled in primary schools in 2000 than there were in 1990. Other accomplishments include significantly increased public expenditures on education; improved qualifications and conditions of service for teachers; improved education sector management information systems; and increased local, regional, and community participation and decision-making in education. Under AEI's scholarship component, 5,353 girls have received scholarships, Guinea has received 500,000 first and second grade language arts texts, and Senegal has received 270,000 textbooks. Additionally, 62,044 in-service teachers and 6,800 pre-service teachers have received training.

The Global Partnership for Child Survival

The United States continues to be one of the world's major donors and an international leader in child survival. In 2003, a global review of progress in child survival documented the need for accelerated progress to achieve the international development goals set for 2015. The review documented that 90 percent of the world's deaths of children occur in 42 developing countries, with half of these deaths occurring in just six large countries. USAID joined the Canadian International Development Agency (CIDA) and the government of Uganda (GOU) in an international consultation to respond to this analysis. As a result, USAID became a founding member of a global "Child Survival Partnership" along with CIDA, UNICEF, the World Health Organization (WHO), the World Bank, the Bill and Melinda Gates Foundation, and other bilateral donors and governments of several developing countries. This group of organizations and governments is working together to strengthen child health programming in countries with high burdens of child mortality, including promotion of regular monitoring and high level review of progress and linkage of child health interventions to national level resources. By mid-2004, this partnership had supported the development of a national child health strategy in Ethiopia, the incorporation of child health into the health investments in the World Bank's emergency recovery program in DRC, and implementation of a national review of the child health and nutrition situation in Cambodia. During the remainder of 2004, additional policy-level actions are planned for India and at least one additional African country. At the same time, patterns will strengthen coordination and programming in those countries already engaged in the partnership. Accelerated progress in key child health indicators is expected within three years in partner countries.

V. PERFORMANCE RESULTS

SUMMARY OF PROVISIONAL OR PRELIMINARY RESULTS — STRATEGIC GOAL 6			
Total Goals and Indicators		**Performance Summary**	
Number of Performance Goals	3	Number of Targets Met	17
Number of Program Goals	9	Number with Data Lags	7
Number of Indicators	29		

PERFORMANCE GOAL #1

Improved Global Health, Including Child, Maternal, and Reproductive Health, and the Reduction of Abortion and Disease, Especially HIV/AIDS, Malaria, and Tuberculosis

FY 2004 Net Program Costs - $2,912,321,034

PROGRAM GOAL: INFECTIOUS DISEASES		
Increased use of proven interventions to reduce the threat of infectious diseases of major public health importance.		
Performance Indicator #1: Tuberculosis Treatment Success Rate (%) (37 Countries)		
FY RESULTS HISTORY	**2001**	Tuberculosis Treatment Success Rate: ◆ Less than 50%: 1 ◆ 50-84%: 26 ◆ 85% or more: 8
	2002	Data is pending.
	2003	Data will be available in 2005.
FY 2004 Data	**2004 Preliminary or Provisional Results**	Data will be available in 2006.
	Target	Tuberculosis Treatment Success Rate: ◆ Less than 50%: 0 ◆ 50-84%: 25 ◆ 85% or more: 12
	Rating	Data is pending.
	Impact	Tuberculosis control programs should ensure high treatment success before expanding case detection because patients given less than a fully-curative course of treatment remain chronically infectious and continue to spread turberculosis.

PROGRAM GOAL: INFECTIOUS DISEASES *(continued)*		
Performance Indicator #2: Case Detection Rate for Tuberculosis		
FY RESULTS HISTORY	**2001**	Case Detection Rate for Tuberculosis: ◆ Less than 40%: 18 ◆ 40-69%: 13 ◆ 70% or more: 6
	2002	Case Detection Rate for Tuberculosis: ◆ Less than 40%: 16 ◆ 40-69%: 14 ◆ 70% or more: 7
	2003	Data is pending.
FY 2004 Data	**2004 Preliminary or Provisional Results**	Data will be available in 2005.
	Target	Case Detection Rate for Tuberculosis: ◆ Less than 40%: 13 ◆ 40-69%: 16 ◆ 70% or more: 8
	Rating	Data is pending.
	Impact	In the presence of a high cure rate, increased case detection of sputum smear positive pulmonary tuberculosis cases will decrease tuberculosis transmission and ultimately, tuberculosis incidence. This is an important indicator to measure how well the program is reducing the overall tuberculosis burden in the targeted countries.
Performance Indicator #3: Percentage of Households in Malaria Endemic Areas with at Least One Insecticide Treated Net (ITN Coverage Rate)		
FY RESULTS HISTORY	**2001**	ITN Coverage Rate: N/A (new indicator)
	2002	ITN Coverage Rate: N/A (new indicator)
	2003	ITN Coverage Rate: N/A (new indicator)
FY 2004 Data	**2004 Preliminary or Provisional Results**	ITN Coverage Rate: 12.8 percent (Represents 2002 startup baseline. Will be updated March 2005.)
	Target	7 percent
	Rating	**Exceeds Target**
	Impact	ITNs are an important component of an overall strategy to control malaria especially for children which results in a 20 percent decrease in deaths.

PROGRAM GOAL: INFECTIOUS DISEASES *(continued)*

Performance Indicator #4: Number of Clients Provided Services at STI Clinics*

FY RESULTS HISTORY	**2001**	180,507 Clients
	2002	58,445 Male; 61,762 Female; 120,207 Total Clients
	2003	214,694 Male; 1,084,640 Female; 1,299,334 Total Clients
FY 2004 Data	**2004 Preliminary or Provisional Results**	119,914* (extrapolated)
	Target	200,000*
	Rating	**Below Target**
	Impact	With its severe social, economic, and political consequences, HIV/AIDS presents a security threat and violates a basic principle of development—that each generation do better than the one before. Care for people infected and affected by HIV/AIDS, including orphans, mitigates the severe pain and debilitating symptoms caused by HIV/AIDS, as well as its social and economic consequences.
NOTES		* FY 2001 through FY 2003 data is for focus and non-focus countries. Beginning in FY 2004, USAID will collect this data for non-focus countries only.

Performance Indicator #5: Number of Orphans and Other Vulnerable Children Receiving Care/Support Services Through Programs Assisted by USAID*

FY RESULTS HISTORY	**2001**	166,122
	2002	327,636
	2003	198,354 Male; 187,688 Female; 104,448 Male or Female; 490,490 Total
FY 2004 Data	**2004 Preliminary or Provisional Results**	217,000 Total* (extrapolated)
	Target	200,000
	Rating	**Below Target**
	Impact	With its severe social, economic, and political consequences, HIV/AIDS presents a security threat and violates a basic principle of development—that each generation do better than the one before. Care for people infected and affected by HIV/AIDS, including orphans, mitigates the severe pain and debilitating symptoms caused by HIV/AIDS, as well as its social and economic consequences.
NOTES		* FY 2001 through FY 2003 data is for focus and non-focus countries. Beginning in FY 2004 USAID will collect this data for non-focus countries only.

PROGRAM GOAL: REDUCE HIV TRANSMISSION AND THE IMPACT OF THE HIV AIDS PANDEMIC		
Performance Indicator #1: Number of People Receiving HIV/AIDS Treatment in the 15 Emergency Plan Focus Countries		
FY RESULTS HISTORY	2001	N/A (new indicator in FY 2004)
	2002	N/A (new indicator in FY 2004)
	2003	N/A (new indicator in FY 2004)
FY 2004 Data	2004 Preliminary or Provisional Results	◆ Provisional data from the field indicates progress toward first year program goals of 200,000 people receiving treatment, with nearly 25,000 people currently receiving treatment. Funds from the President's Emergency Plan were not available until June 2004.
	Target	At least 200,000 individuals receiving treatment during FY 2004
	Rating	**On Target** Treatment results indicated above reflect preliminary reporting from nine of 15 focus countries in advance of first HIV/AIDS annual progress reports due December 3, 2004. Final numbers for people on treatment at the end of the first reporting period are likely to be much higher, with the target of 200,000 reached by the end of the first year of full program implementation in June 2005
	Impact	With its severe social, economic, and political consequences, HIV/AIDS presents a security threat and violates a basic principle of development—that each generation do better than the one before. HIV/AIDS treatment mitigates the consequences of HIV/AIDS by dramatically improving health and therefore productivity. With every person receiving treatment, life is extended, families are held intact, and nations move forward with development.
Performance Indicator #2: Estimated Number of HIV Infections Prevented in the 15 Emergency Plan Focus Countries		
FY RESULTS HISTORY	2001	N/A (new indicator in FY 2004)
	2002	N/A (new indicator in FY 2004)
	2003	N/A (new indicator in FY 2004)
FY 2004 Data	2004 Preliminary or Provisional Results	◆ FY 2004 estimates of people receiving prevention services and HIV/AIDS infections prevented in the 15 countries would be provided after HIV/AIDS annual report is submitted on December 3, 2004.
	Target	1. An estimated 47.8 million people receiving prevention services. 2. An estimated 1.3 million infections prevented.
	Rating	**On Target**
	Impact	With its severe social, economic, and political consequences, HIV/AIDS presents a security threat and violates a basic principle of development —that each generation do better than the one before. Preventing HIV infections will dramatically decrease burdens of disease on individuals, families, and nations.

PROGRAM GOAL: REDUCE HIV TRANSMISSION AND THE IMPACT OF THE HIV AIDS PANDEMIC *(continued)*		
Performance Indicator #3: Number of People Receiving HIV/AIDS Care in the 15 Focus Countries		
FY RESULTS HISTORY	2001	N/A (new indicator in FY 2004)
	2002	N/A (new indicator in FY 2004)
	2003	N/A (new indicator in FY 2004)
FY 2004 Data	2004 Preliminary or Provisional Results	◆ FY 2004 figures for number of people receiving HIV/AIDS care in the 15 countries would be provided after HIV/AIDS annual report is submitted on December 3, 2004.
	Target	At least 1.1 million people infected and affected by HIV/AIDS receiving care and support, including orphans and other vulnerable children.
	Rating	**On Target**
	Impact	With its severe social, economic, and political consequences, HIV/AIDS presents a security threat and violates a basic principle of development—that each generation do better than the one before. Care for people infected and affected by HIV/AIDS, including orphans, mitigates the severe pain and debilitating symptoms caused by HIV/AIDS, as well as its social and economic consequences.
Performance Indicator #4: Number of HIV-Infected Pregnant Women Receiving a Complete Course of ARV Prophylaxis to Reduce the Risk of MTCT in USAID Assisted Sites*		
FY RESULTS HISTORY	2001	N/A (new indicator in FY 2002)
	2002	6,618
	2003	10,841
FY 2004 Data	2004 Preliminary or Provisional Results	4,707* (extrapolated)
	Target	5,000
	Rating	**On Target**
	Impact	With its severe social, economic, and political consequences, HIV/AIDS presents a security threat and violates a basic principle of development —that each generation do better than the one before. Care for people infected and affected by HIV/AIDS, including orphans, mitigates the severe pain and debilitating symptoms caused by HIV/AIDS, as well as its social and economic consequences.
NOTES	* FY 2001 through FY 2003 data is for focus and non-focus countries. Beginning in FY 2004 USAID will collect this data for non-focus countries only.	

PROGRAM GOAL: MATERNAL AND REPRODUCTIVE HEALTH		
Reduce unintended pregnancy, promote healthy reproductive behavior, and enhance maternal survival, health, and nutrition.		
Performance Indicator #1: Total Fertility Rate (TFR)		
FY RESULTS HISTORY	**2001**	TFR: 4.4
	2002	TFR: 4.3
	2003	TFR: 4.3
FY 2004 Data	**2004** Preliminary or Provisional **Results**	TFR: 4.2
	Target	No targets set. USAID's program promotes voluntarism in the use of family planning services and thus it would be inappropriate for the Agency to set target levels for family size.
	Rating	**N/A**
	Impact	TFR illustrates overall trends in family size.
Performance Indicator #2: Percent of Live Births Attended by Skilled Birth Attendants		
FY RESULTS HISTORY	**2001**	Percent of Live Births Attended by Skilled Birth Attendants: 46.5 percent
	2002	Percent of Live Births Attended by Skilled Birth Attendants: 47.2 percent
	2003	Percent of Live Births Attended by Skilled Birth Attendants: 48.0 percent
FY 2004 Data	**2004** Preliminary or Provisional **Results**	Percent of Live Births Attended by Skilled Birth Attendants: 48.7 percent
	Target	48.5%
	Rating	**On Target**
	Impact	Percent of live births attended by skilled birth attendants is inversely correlated with the maternal mortality ratio.
Performance Indicator #3: Modern Contraceptive Prevalence Rate (Global)		
FY RESULTS HISTORY	**2001**	Modern Contraceptive Prevalence Rate: 34.7 percent
	2002	Modern Contraceptive Prevalence Rate: 36.1 percent
	2003	Modern Contraceptive Prevalence Rate: 37.3 percent
FY 2004 Data	**2004** Preliminary or Provisional **Results**	Modern Contraceptive Prevalence Rate: 38.4 percent (extrapolated)
	Target	FY 2004 targets were not specified in the Joint Performance Plan. FY 2005 target from Joint Performance Plan: 39.4 percent
	Rating	**On Target**
	Impact	Use of modern contraception is a principal proximate determinant of fertility. As contraceptive use increases, both fertility and abortion rates tends to decrease.

PROGRAM GOAL: MATERNAL AND REPRODUCTIVE HEALTH *(continued)*		
Performance Indicator #4: Percent of Births Spaced More Than Three Years Apart		
FY RESULTS HISTORY	2001	Percent of Births Spaced More Than Three Years Apart: 43.3.0 percent
	2002	Percent of Births Spaced More Than Three Years Apart: 44.0 percent
	2003	Percent of Births Spaced More Than Three Years Apart: 44.7 percent
FY 2004 Data	2004 Preliminary or Provisional Results	Percent of Births Spaced More Than Three Years Apart: 45.3 percent (extrapolated)
	Target	FY 2004 targets were not specified in the Joint Performance Plan. FY 2005 target: 45.9 percent
	Rating	**On Target**
	Impact	Longer birth intervals are associated with better health outcomes for both mothers and infants.
Performance Indicator #5: Percent of First Births to Mothers Under 18		
FY RESULTS HISTORY	2001	Percent of First Births to Mothers Under 18: 25.0 percent
	2002	Percent of First Births to Mothers Under 18: 24.8 percent
	2003	Percent of First Births to Mothers Under 18: 24.5 percent
FY 2004 Data	2004 Preliminary or Provisional Results	Percent of First Births to Mothers Under 18: 24.3 (extrapolated)
	Target	FY 2004 targets were not specified in the Joint Performance Plan. FY 2005 target: 24.1 percent
	Rating	**On Target**
	Impact	Young maternal age is associated with poorer health outcomes for mothers and infants.
Performance Indicator #6: Percent Need Satisfied with Modern Contraceptive Methods		
FY RESULTS HISTORY	2001	Percent Need Satisfied with Modern Contraceptive Methods: 62.9 percent
	2002	Percent Need Satisfied with Modern Contraceptive Methods: 64.1 percent
	2003	Percent Need Satisfied with Modern Contraceptive Methods: 65.2 percent
FY 2004 Data	2004 Preliminary or Provisional Results	Percent Need Satisfied with Modern Contraceptive Methods: 66.4 percent (extrapolated)
	Target	FY 2004 targets were not specified in the Joint Performance Plan. FY 2005 target: 67.8 percent
	Rating	**On Target**
	Impact	Increases in the percentage of need satisfied indicate that women are increasingly able to achieve the number and spacing of children that they desire.

PROGRAM GOAL: MATERNAL AND REPRODUCTIVE HEALTH *(continued)*		
Performance Indicator #7: Percent of Births Parity 5 or Higher		
FY RESULTS HISTORY	2001	Percent of Births Parity 5 or Higher: 26.8 percent
	2002	Percent of Births Parity 5 or Higher: 26.1 percent
	2003	Percent of Births Parity 5 or Higher: 25.4 percent
FY 2004 Data	2004 Preliminary or Provisional Results	Percent of Births Parity 5 or Higher: 24.7 percent (extrapolated)
	Target	FY 2004 targets were not specified in the Joint Performance Plan. FY 2005 target: 24.1 percent.
	Rating	**On Target**
	Impact	High parity births are associated with poorer health outcomes for infants.

PROGRAM GOAL: CHILD HEALTH		
Infant and child survival, health, and nutrition improved.		
Performance Indicator #1: Under-Five Mortality Rate		
FY RESULTS HISTORY	2001	Under-Five Mortality Rate (1998): 94/1,000
	2002	Under-Five Mortality Rate (2000): 91/1,000
	2003	Under-Five Mortality Rate (2002): 89/1,000
FY 2004 Data	2004 Preliminary or Provisional Results	Under-Five Mortality Rate (provisional): 87/1,000
	Target	87/1,000
	Rating	**On Target**
	Impact	Survival of children under age five is one of the most important indicators of a population's overall well being. Continued, although slow progress in child survival indicates the success of investment by USAID, countries, and other partners in direct interventions in child health, such as immunization and improved nutrition, combined with the effects of poverty alleviation, education (especially for women and girls), increased food security, and other development interventions. For every additional child who survives through these program investments, hundreds more leave their childhood healthier, better nourished, and more able to reach their own potential and contribute to their country's progress.

PROGRAM GOAL: CHILD HEALTH *(continued)*		
Performance Indicator #2: Neonatal Mortality Rate		
FY RESULTS HISTORY	**2001**	Neonatal Mortality Rate (1997-2002): 34/1,000
	2002	Neonatal Mortality Rate (1997-2002): 34/1,000
	2003	N/A (demographic health surveys are very expensive, time consuming, and slow, and are not done every year)
FY 2004 Data	**2004** Preliminary or Provisional **Results**	Neonatal Mortality Rate: (not available)
	Target	33/1,000
	Rating	This information is not available at this time, but will be updated in the FY 2004 USAID PAR Addendum in March 2005.
	Impact	With improved survival of older infants and pre-school children in many countries, mortality among infants in the first month of life has become one of the largest parts of overall mortality of young children. USAID has led efforts to increase focus on program approaches that improve the survival and well being of these youngest children; USAID-supported research has demonstrated significant reductions of newborn mortality through simple measures to improve routine newborn care in poor countries and through simple approaches to treating life-threatening infections. These efforts are linked to programs that improve the health and survival of mothers through better care during pregnancy, birth, and the critical days and weeks after birth when maternal and newborn complications are most frequent.
Performance Indicator #3: Underweight for Age Among Children Under-Five		
FY RESULTS HISTORY	**2001**	Underweight for Age Among Children Under-Five: 29 percent
	2002	Underweight for Age Among Children Under-Five: No Data Available.
	2003	Underweight for Age Among Children Under-Five: 28 percent
FY 2004 Data	**2004** Preliminary or Provisional **Results**	Underweight for Age Among Children Under-Five: 27 percent (based on historical trend)
	Target	27 percent
	Rating	**On Target**
	Impact	The proportion of young children beneath the normal range of weight for their age is a basic indicator of child nutritional status. USAID combines promotion of breastfeeding, a vital source of nutrition and protection against diseases, with improved young child feeding and prevention of the malnourishing effects of child illness. The slow but positive global trend in child nutrition is a strong reflection of the impact of health and other program investments in improving the well being of children, and also contributes to lower risk of severe illness and death from infectious diseases. As part of its work to control the HIV/AIDS epidemic, USAID has worked closely with UNICEF, WHO, and other partners to promote safe infant feeding, including exclusive breastfeeding, in populations where HIV infection is highly prevalent.

PROGRAM GOAL: CHILD HEALTH *(continued)*		
Performance Indicator #4: Percentage of Children with DPT3 Coverage		
FY RESULTS HISTORY	**2001**	Percentage of Children with DPT3 Coverage: 72 percent
	2002	Percentage of Children with DPT3 Coverage: No Data Available.
	2003	Percentage of Children with DPT3 Coverage: 73 percent
FY 2004 Data	**2004** Preliminary or Provisional **Results**	Percentage of Children with DPT3 Coverage: 74 percent (based on historical trends and expert opinion)
	Target	74 percent
	Rating	**On Target**
	Impact	Immunization is one of the most fundamental and cost-effective child health interventions. In developing countries, immunization saves millions of children from the health-impairing and often life-threatening effects of diseases like measles, whooping cough, tetanus, and polio. In 2004, USAID invested its own resources and technical expertise to leverage the substantial resources provided by Congress to the Global Alliance for Vaccines and Immunization (GAVI), linking the introduction of new vaccines against additional child illnesses to strengthening of countries' systems to immunize children year after year. Evaluations carried out in 2004 found significant strengthening of immunization and child health capacities in several countries as a result of this investment.
Performance Indicator #5: Percent of Children Aged 0-4 with Diarrhea Who Received Oral Rehydration Therapy		
FY RESULTS HISTORY	**2001**	Percent of Children Aged 0-4 with Diarrhea Who Received ORT: 64 percent
	2002	Percent of Children Aged 0-4 with Diarrhea Who Received ORT: 67 percent
	2003	Percent of Children Aged 0-4 with Diarrhea Who Received ORT: 69 percent
FY 2004 Data	**2004** Preliminary or Provisional **Results**	Percent of Children Aged 0-4 with Diarrhea Who Received ORT: 71 percent (based on historic trends)
	Target	71 percent
	Rating	**On Target**
	Impact	Since the development of ORT through USAID-supported research in the 1970s, this simple treatment has saved millions of child deaths from the dehydrating effects of the diarrheal illnesses that are common in poor countries. In 2004, USAID worked with WHO and UNICEF to accelerate progress in use of this life-saving treatment. Together, these partners introduced a new improved formulation of oral rehydration solution as well as zinc treatment, which USAID-supported research has shown to reduce the severity and duration of diarrheal illness. These new products will help further reduce diarrhea mortality in children, and will be promoted to increase awareness of correct treatment by families. In this way, ORT-use rates are expected to climb further in the next several years.

PERFORMANCE GOAL #2

Partnerships, Initiatives, and Implemented International Treaties and Agreements that Protect the Environment and Promote Efficient Energy Use and Resource Management

FY 2004 Net Program Costs - $495,128,531

PROGRAM GOAL: INSTITUTIONALIZING SUSTAINABLE DEVELOPMENT		
Reform bilateral and multilateral processes and institutions to focus efforts on key sustainable development issues (water, energy, and domestic good governance; education; agriculture; environment; and economic growth) and on implementation of sustainable development practices.		
Performance Indicator #1: Number of People in Target Areas With Access to Adequate Safe Water Supply and/or Sanitation That Meets Sustainability Standards		
FY RESULTS HISTORY	**2001**	N/A (new indicator in FY 2003)
	2002	N/A (new indicator in FY 2003)
	2003	◆ 5,428,571 people in target areas with improved access to adequate safe water supply that meets sustainability standards (not including 1,567,071 beneficiaries gained in Iraq, which brings the total to 6,995,642 people). ◆ 7,198,855 people in target areas with improved access to adequate sanitation that meets sustainability standards (not including 1,567,071 beneficiaries gained in Iraq, which brings the total to 6,995,642 people). ◆ 57,436 Integrated water resources management (IWRM) governance groups established.
FY 2004 Data	**2004** Preliminary or Provisional **Results**	◆ 9,131,752 cumulative number of people since the beginning of 2003 with improved access to adequate safe water supply that meets sustainability standards (not including 1,759,641beneficiaries gained in Iraq since the beginning of 2003, which brings the total to 10,891,393 people). ◆ 11,302,403 cumulative number of people since the beginning of 2003 with improved access to adequate safe water supply that meets sustainability standards (not including 9,613,101 total beneficiaries in Iraq since the beginning of 2003, which brings the total to 20,915,504 people). ◆ 60,512 Integrated water resources management (IWRM) governance groups established.
	Target	◆ 5,573,727 people in target with improved access to adequate safe water supply that meets sustainability standards. ◆ 3,000,000 people in target areas with improved access to adequate sanitation that meets sustainability standards
	Rating	**Below Target**
	Impact	Water Supply: Results will accelerate and expand international efforts to achieve the UN Millennium Development Goals and implement the Johannesburg Plan of Implementation including halving, by 2015, "the proportion of people who are unable to reach or afford safe drinking water." Sanitation: Results will accelerate and expand international efforts to achieve the UN Millennium Development Goals and implement the Johannesburg Plan of Implementation including halving, by 2015, "the proportion of people without access to basic sanitation."

PROGRAM GOAL: INSTITUTIONALIZING SUSTAINABLE DEVELOPMENT *(continued)*		
Performance Indicator #2: Number of People with Adequate Access to Modern Energy Services		
FY RESULTS HISTORY	**2001**	N/A (new indicator in FY 2003)
	2002	N/A (new indicator in FY 2003)
	2003	4,765,923 people with access to modern energy services.
FY 2004 Data	**2004** Preliminary or Provisional **Results**	5,557,031 people with access to modern energy services (as per OPIN figures to June 2004). (ANE Region: Afghanistan est. 1.56 million) LAC – This is an OPIN indicator and should be available now through the OPIN coordinator for the clean energy initiative.
	Target	4,900,000 (FY 2004 Annual Performance Plan (APP) target)
	Rating	**Exceeds Target**
	Impact	Access to affordable, reliable, clean, and efficient energy services is essential to breaking the cycle of poverty and achieving sustainable development and economic growth. Through USAID's work, over five million previously un-served people have received access to energy services in FY 2004. These expanded energy services have contributed to improved health care, promoted micro-enterprise development, and improved agricultural productivity. For example, USAID has provided funding for solar powered communication and modern medical equipment in 450 Peruvian health care facilities improving the medical services to over 225,000 people. In Barangay Saloy, located on the Philippine island of Mindanao, USAID contributed to the development of a microhydro power facility that provides electricity to 155 households, runs the corn and coffee mill, and provides power for a computer learning center. In the words of the chair of the local farmers cooperative, "Everyone here is ecstatic with all the developments happening. The people are now busier with their livelihood activities."

PROGRAM GOAL: COASTAL AND MARINE RESOURCES		
Develop, negotiate, and implement initiatives, treaties, and agreements to better protect both living and non-living marine resources and promote sustainable development.		
Performance Indicator #1: Number of Coastal and Marine Policies, Laws, or Regulations Developed, Adopted, and Implemented		
FY RESULTS HISTORY	**2001**	N/A (new indicator in FY 2003)
	2002	N/A (new indicator in FY 2003)
	2003	◆ First Year Data Reported: 49. Estimate is based on a total of 49 improved policies).
FY 2004 Data	**2004** Preliminary or Provisional **Results**	◆ The results specified above, which were collected on an Agency-wide basis, are considered the targets for FY 2004 for this indicator. Since it is a new Indicator for FY 2004, the process of assigning targets and reporting on their results is still in an early stage of maturity, and will improve as targets are formally established and tracked in FY 2005 and beyond.
	Target	Cumulative since FY 2003: 7 (expected to be gained in 2004) + 49 = 56 total.
	Rating	**Below Target**
	Impact	Conservation policies, laws, and regulations provide a crucial foundation for securing both the commitment to, and enforcement of, conservation of natural resources.

PROGRAM GOAL: CONSERVATION OF BIOLOGICAL DIVERSITY, PROTECTED AREAS, FORESTS, AND OTHER NATURAL RESOURCES		
		Promote economic development, alleviate poverty, and improve local governance by improving conservation and management of the world's natural protected areas.
		Performance Indicator #1: Biodiversity Conservation and Natural Resource Management
FY RESULTS HISTORY	**2001**	80,534,878 hectares under improved management
	2002	40,900,997 hectares under improved management
	2003	1. 26,655,591 hectares under improved management for biodiversity conservation. 2. 197,888,892 hectares under sustainable forest management.
FY 2004 Data	**2004** Preliminary or Provisional **Results**	1. 27,258,000 hectares under improved management (biodiverse landscapes, forests, watersheds, agricultural and natural landscapes) (LAC: 13,817,089 (2003 Annual Report) 2. 203,600,000 hectares under increased conservation and sustainable management of forest ecosystems (LAC: 17,298,045 (2003 Annual Report) 3. TBD – Number of targeted conservation areas implementing approved management plans as a result of USAID assistance.
	Target	27,000,000 hectares under improved management. 220,000,000 hectares under sustainable forest management.
	Rating	**1. Exceeds Target** **2. Below Target**
	Impact	Biodiversity conservation and sound natural resource management promote improved human well-being by protecting valuable genetic resources and ecosystems, and expanding enterprise and employment opportunities from the sustainable production of natural products and environmental services. In addition they contribute to equitable natural resources governance, and mitigate conflict over resources.

PROGRAM GOAL: GLOBAL CLIMATE CHANGE		
Implement the President's new approach to climate change and energy technologies.		
Performance Indicator #1: Status of Bilateral Regional and Global Climate Change Partnerships and Initiatives		
FY RESULTS HISTORY	**2001**	◆ New partnerships with Central American countries. ◆ The Agency implemented climate-related activities with a total budget of $157 million in 47 bilateral country missions, regional programs, and central offices. 5.8 million metric tons of carbon dioxide (CO2) equivalent emissions were avoided and 27 million hectares/year were involved in activities that promote carbon storage and/or protect carbon sinks.
	2002	◆ Partnership announced with India. ◆ The Agency implemented climate-related activities with a total budget of $174 million in 55 bilateral country missions, regional programs, and central offices. 3.8 million metric tons of CO2 equivalent emissions were avoided and 27 million hectares/year were involved in activities that promote carbon storage and/or protect carbon sinks.
	2003	◆ Initiated partnerships with Russia, Mexico, and South Africa. Continued exploratory discussions with Kazakhstan and Brazil. Results were consistent with 2002 timelines, and existing partnerships were reviewed. ◆ The Agency implemented climate-related activities with a total budget of $207 million in 55 bilateral country missions, regional programs, and central offices. Four million metric tons of CO2 equivalent emissions were avoided and 27 million hectares/year were involved in activities that promote carbon storage and/or protect carbon sinks.
FY 2004 Data	**2004** Preliminary or Provisional **Results**	◆ Built support among developing countries for U.S. positions on science, technology, and adaptation under the UN Framework Convention on Climate Change. ◆ Established new additional bilateral climate change partnerships (Brazil and Egypt). ◆ Advanced joint projects and activities under 6 existing developing country climate change partnerships, and reviewed and adjusted engagement with these partners. ◆ Additional results are not yet available at this time.
	Target	This information is not available at this time, but will be updated in the FY 2004 USAID PAR Addendum in March 2005.
	Rating	This information is not available at this time, but will be updated in the FY 2004 USAID PAR Addendum in March 2005.
	Impact	The Global Climate Change team has been successful in ensuring USAID mission priorities and strategic objectives were incorporated into at least six U.S. government bilateral agreements on climate change, thus furthering U.S. climate change policy.

PERFORMANCE GOAL #3

Broader Access to Quality Education with Emphasis on Primary School Completion

FY 2004 Net Program Costs - $588,819,803

PROGRAM GOAL: IMPROVED ACCESS TO QUALITY EDUCATION		
Including early childhood, primary, secondary, adult, higher education and workforce development programs.		
Performance Indicator #1: Number of Learners Completing Basic Education in Programs Sponsored by USAID		
FY RESULTS HISTORY	**2001**	13,210,610 children enrolled in primary education programs supported by USAID
	2002	14,163,038 children enrolled in primary education programs supported by USAID
	2003	22,317,204 children enrolled in primary education programs supported by USAID 1,799,066 children enrolled in primary school (LAC 2003 Annual Report) 101,756 children completing primary school (LAC 2003 Annual Report)
FY 2004 Data	**2004** Preliminary or Provisional **Results**	1. TBD – children enrolled in primary school. 2. TBD – children completing primary school. 3. TBD – Number of adult learners completing basic education.
	Target	◆ The results specified above, which were collected on an Agency-wide basis, are considered the targets for FY 2004 for this indicator. Since it is a new Indicator for FY 2004, the process of assigning targets and reporting on their results is still in an early stage of maturity, and will improve as targets are formally established and tracked in FY 2005 and beyond.
	Rating	This information is not available at this time, but will be updated in the FY 2004 USAID PAR Addendum in March 2005.
	Impact	USAID has increased the number of countries with basic education programs from 20 to 43 in the last three years. USAID programs increase access to basic eduction, particularly for girls and undeserved populations, including orphans and vulnerable children. USAID is also improving the quality of education through teacher training, curriculum enhancement, policy reform, increased parental participation, and increased transparency and accountability of education resources. Improving the quality of education decreases student repetition and drop-out rates.
Performance Indicator #2: Capabilities in Higher Education and Workforce Development Programs Sponsored by USAID		
FY RESULTS HISTORY	**2001**	N/A (new indicator in FY 2003)
	2002	N/A (new indicator in FY 2003)
	2003	First Year Data Reported: ◆ 528 host country institutions gain increased management capacity through partnership programs ◆ 207 higher education institutional programs, policies, and curricula adapted to the needs of sustainable development. ◆ 7,857 persons trained through workforce development programs (LAC 2003 Annual Report)
FY 2004 Data	**2004** Preliminary or Provisional **Results**	◆ 550 host country institutions gain increased management capacity through partnership programs. ◆ 220 higher education institutional programs, policies, and curricula adapted to the needs of sustainable development. ◆ TBA – Number of persons trained through workforce development programs
	Target	◆ The results specified above, which were collected on an Agency-wide basis, are considered the targets for FY 2004 for this indicator. Since it is a new Indicator for FY 2004, the process of assigning targets and reporting on their results is still in an early stage of maturity, and will improve as targets are formally established and tracked in FY 2005 and beyond.
	Rating	This information is not available at this time, but will be updated in the FY 2004 USAID PAR Addendum in March 2005.
	Impact	USAID, through its partners, has established over 275 higher education partnerships working in 59 developing countries over the past 4-5 years. These partnerships have promoted sustainable development in the following sectors: agriculture, agribusiness, animal science, community development, democracy and governance, public policy, law, journalism, economic growth and trade, education, environment, natural resource management, distance education, internet and communication technology, population, health, nutrition, and workforce and entrepreneurial development.

VI. PROGRAM EVALUATIONS AND PART REVIEWS

Four program evaluations were conducted in FY 2004 that pertained to this Strategic Goal.

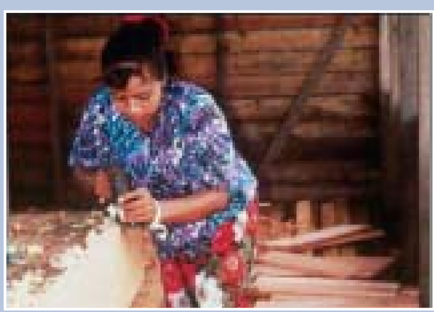
1) Evaluation of the Leadership Development Program for the Ministry of Health, Nicaragua (2001 – 2003) (link: http://www.dec.org/pdf_docs/PDACA372.pdf)

2) Evaluation of REDSALUD and USAID/DR strategic support to reform of the Dominican health sector (link: http://www.dec.org/pdf_docs/PDACA459.pdf)

3) Djibouti Workforce Development and Competitiveness Study, USAID/EDC, March 2004.

4) "Generations of Quiet Progress: The Development Impact of U.S. Long-Term University Training on Africa from 1963 to 2003," EGAT/ED and Aguirre International, September 2004.

Sustainable Forest Products Global Alliance



Woman develops sustainable tree product for export to the U.S.

An alliance that is achieving USAID's social and environmental goals is the nearly $15 million Sustainable Forest Products Global Alliance. In this alliance, partners are working to increase the supply of and demand for legally-sourced, certified timber by connecting producers of responsible forest products in the developing world to retailers across the United States. At least one-half of all logging activities in regions such as the Amazon Basin, Central Africa, and the Russian Federation are estimated to be illegal. As part of this alliance, a new forest management training center is being built in Brazil, and in Mexico the alliance is helping communities improve their resource management, forest product quality, and access to markets. USAID's alliance partners include Forest Trends, Home Depot, Metafore and World Wildlife Fund.

Netmark

The Netmark Alliance is an eight-year, $65.4 million dollar project designed to reduce the impact of malaria in sub-Saharan Africa through the increased use and sustainable supply of insecticide treated mosquito nets (ITN). With over 40 international and local commercial partners, including the Academy for Educational Development, A-Z Textiles, BASF, Bayer AG, Siamdutch Mosquito Netting Co., Ltd, and Vestergaard Frandsen A/S, the alliance aims to increase both the supply of and demand for mosquito nets. Data continue to show the effectiveness of the NetMark approach through joint investment with the private sector. NetMark partners have sold over two million retreatment kits and over three million ITNs through September 2004, and are expected to reach total ITN sales of 20 million, preventing an estimated 250,000 to 500,000 deaths from malaria annually.

Insecticide-treated mosquito nets save lives and are sold along the side of the road

STRATEGIC GOAL 7: HUMANITARIAN RESPONSE

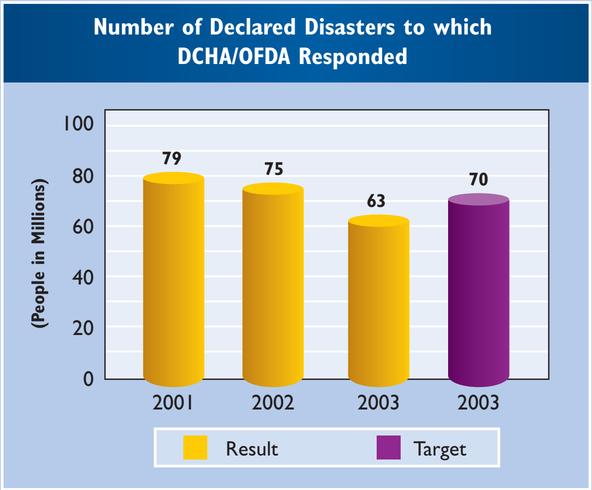
Minimize the Human Costs of Displacement, Conflicts, and Natural Disasters

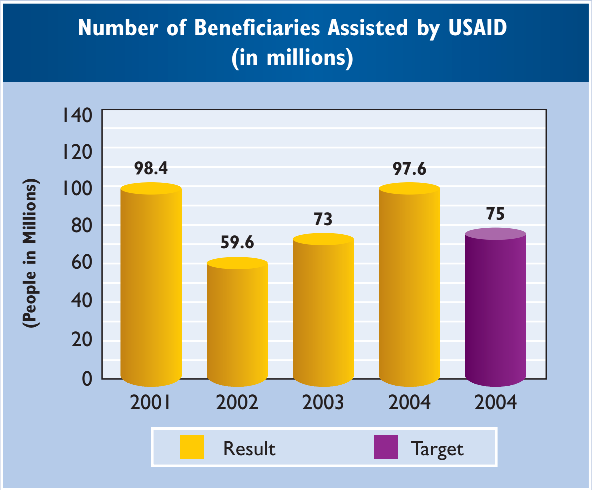
I. PUBLIC BENEFIT

The United States' commitment to humanitarian response demonstrates America's compassion for victims of armed conflict, landmines, forced migration, human rights violations, widespread health and food insecurity, and other threats. The strength of this commitment derives from both the United States' common humanity and responsibility as a global leader. In addition to saving lives and alleviating human suffering, humanitarian programs support the objectives of the U.S. National Security Strategy by addressing crises with potential regional (or even global) implications, fostering peace and stability, and promoting sustainable development and infrastructure revitalization.

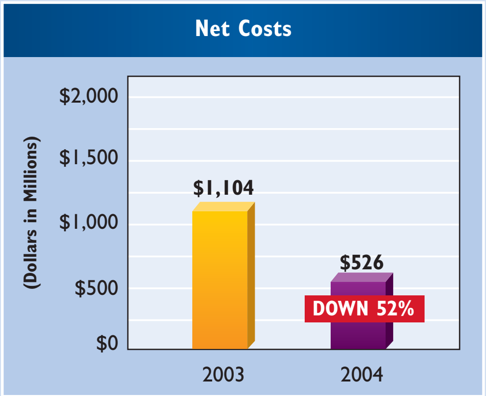
Through USAID efforts, the United States is the leader in international efforts to prevent and respond to humanitarian crises. It provides substantial resources and guidance through international and non-governmental organizations for worldwide humanitarian programs, with the objective of increasing access to protection, promoting burden-sharing, and coordinating funding and implementation strategies. USAID's leadership and humanitarian support to disasters and complex emergencies provides a positive standard for the donor community and hope for a better future for the people suffering as a result of natural or human-made disasters.

II. SELECTED PERFORMANCE TRENDS





III. RESOURCES INVESTED



IV. ILLUSTRATIVE EXAMPLE OF SIGNIFICANT ACHIEVEMENT

USAID Sets Policy for Internally Displaced Persons (IDPs)

25 million internally displaced persons (IDPs) are getting a formal offer of assistance and protection under a new USAID policy adopted in September 2004. USAID will lead U.S. Government response to IDP situations and develop comprehensive, durable strategies that address all phases of displacement. As the first donor government to articulate a policy on this issue, the work has received the endorsement of the international community that considers this "path-breaking work that provides a real model for other donors to follow."

Humanitarian Demining

In FY 2003, more than 30 mine-affected countries in the U.S. Humanitarian Demining Program benefited from the clearance of land suitable for agriculture, pastoral use, and potential for restoring economic infrastructure. These countries also witnessed the safe return of tens of thousands of refugees and internally displaced persons (IDP), who were able to travel on formerly mine-affected roads. Also, several countries achieved Sustainment status—the ability to implement and manage their own humanitarian demining program—while others were able to declare themselves mine-safe.

Response to Humanitarian Crisis in Chad and Darfur

The U.S. government has led the international response to the humanitarian emergency resulting from the ongoing conflict in Darfur, Sudan. Working closely together, the Department of State and USAID have provided over $200 million in FY 2004 to meet the urgent humanitarian needs of 200,000 Sudanese refugees in Chad and 1.2 million IDPs in Darfur. The Department and USAID are actively engaged with multilateral and non-governmental

(continued on next page)

organizations to ensure strong management of assistance programs under challenging conditions. The U.S. government is also a leading advocate for the protection of civilians affected by the conflict. To strengthen their response, the Department and USAID continue to deploy staff to the region—on diplomatic missions, extended monitoring missions, and a Disaster Assistance Response Team.

In response to the crisis in Darfur, Sudan, and Eastern Chad, OFDA has deployed a Disaster Assistance Response Team and has worked tirelessly to help suffering populations. OFDA assistance to Darfur and Eastern Chad in FY 2004 exceeded $71 million, and included efforts to provide water and sanitation, shelter, nutrition, agricultural inputs, and other important support.

V. PERFORMANCE RESULTS

SUMMARY OF PROVISIONAL OR PRELIMINARY RESULTS — STRATEGIC GOAL 7			
Total Goals and Indicators		**Performance Summary**	
Number of Performance Goals	2	Number of Targets Met	3
Number of Program Goals	2	Number with Data Lags	3
Number of Indicators	6		

PROGRAM GOAL: HUMANITARIAN ASSISTANCE		
Address the humanitarian needs of refugees, victims of conflict and natural disasters, and internally displaced persons (IDP).		
Performance Indicator #1: Crude Mortality Rates (CMR)		
FY RESULTS HISTORY	**2001**	USAID/PPC funded Nutrition Information Crisis Situations (UN Standing Committee on Nutrition) and WHO/Emergency and Humanitarian Action (EHA) to undertake trend analysis. As a pilot, CMR was monitored in selected sites to ensure that the situation improved over time. CMR was reported from sites in Angola, Balkans, Burundi, Kenya, Nepal, Sierra Leone, Sudan, Tanzania, Uganda.
	2002	USAID convened an international workshop which led to the adoption of CMR as a common indicator for all relief organizations and agreement to develop a standardized assessment methodology. This led to international agreement to establish comprehensive shared systems to undertake global monitoring of CMR status in emergency sites.
	2003	Complex Emergencies Database (CE-DAT) was funded by State/PRM to compile data on CMR, nutrition and other indicators. Pre-conflict baseline data was collected and established for 89 mortality survey populations in 26 countries.
FY 2004 Data	**2004 Preliminary or Provisional Results**	CE-DAT was officially launched as an online, publicly accessible data source for mortality, morbidity, and nutrition information. In this first phase, CE-DAT focuses on eight priority countries: Afghanistan, Angola, Congo, R.D., Ivory Coast, Ethiopia, Iraq, Sierra Leone, Sudan. Detailed human indicator database has been established for Sudan as a priority because of the Darfur crisis.
	Target	No target was set while systems and baselines are still being established.
	Rating	Baseline being established. Target will be set for FY 2005 and follow-on years.
	Impact	Since CE-DAT was launched only in FY 2004, global impact reporting is not available for FY 2004. Initial CMR is available only for five of the eight focus countries. Of the 62 emergency sites in these five countries, 30 (or 48 percent) are above the emergency threshold.

PROGRAM GOAL: HUMANITARIAN ASSISTANCE *(continued)*		
Indicator #2: Nutritional Status of Children Under Five Years of Age		
FY RESULTS HISTORY	**2001**	USAID/PPC funded Nutrition Information Crisis Situations (UN Standing Committee on Nutrition) and WHO/EHA to undertake trend analysis. As a pilot, acute malnutrition in children was monitored in selected sites to ensure that nutritional status improved over time. Nutritional status was reported from sites in Angola, Balkans, Burundi, Kenya, Nepal, Sierra Leone, Sudan, Tanzania, and Uganda.
	2002	USAID convened an international workshop which led to the adoption of nutritional status as a common indicator for all relief organizations and agreement to develop a standardized assessment methodology. This led to international agreement to establish comprehensive shared systems to undertake global monitoring of nutritional status in emergency sites.
	2003	Nutrition data compiled for 67 percent of selected conflict sites with CMR data, mostly in the Africa region and countries with protracted emergencies, and Iraq and Afghanistan.
FY 2004 Data	**2004** Preliminary or Provisional **Results**	198 emergency sites surveyed in 22 countries (16 in Africa, four in Asia, one in Middle East, and one in South America).
	Target	No target was set while systems and baselines are still being established.
	Rating	Baseline being established. Target will be set for FY 2005 and FY 2006.
	Impact	Where data was available (57 emergency sites), comparison of FY 2003 with FY 2004 data shows that the nutrition situation improved in 18 percent of sites, remained stable in 68 percent of sites, and deteriorated in 23 percent of sites.
Performance Indicator #3: Number of Beneficiaries Assisted by USAID (in millions)		
FY RESULTS HISTORY	**2001**	98.4 Million Beneficiaries
	2002	59.6 Million Beneficiaries
	2003	73 Million Beneficiaries. 16,530 Beneficiaries who were torture survivors.
FY 2004 Data	**2004** Preliminary or Provisional **Results**	◆ 97.6 Million Beneficiaries (estimate as of October 2004) ◆ 17,000 beneficiaries who were torture survivors.
	Target	◆ 75 Million beneficiaries
	Rating	**Exceeds Target**
	Impact	DCHA/OFDA relief programs reached nearly 100 million beneficiaries, providing a wide range of life-saving and preparedness services.

PERFORMANCE GOAL #2

Improve Disaster Prevention and Response Through Capacity Building in Crisis-Prone Countries

FY 2004 Net Program Costs - $109,071,755

PROGRAM GOAL: PARTNER ACCOUNTABILITY		
Ensure that partners have the appropriate training and support to build local capacity in disaster preparedness and mitigation.		
Performance Indicator #1: Number of People and Number/Percent of Partner Institutions That Received Training and Technical Support		
FY RESULTS HISTORY	**2001**	N/A (new indicator in FY 2003)
FY RESULTS HISTORY	**2002**	N/A (new indicator in FY 2003)
FY RESULTS HISTORY	**2003**	Final Data Pending
FY 2004 Data	**2004** Preliminary or Provisional **Results**	Nearly 100 percent of DCHA/OFDA grantees received technical consideration, feedback, and inputs into their proposal
FY 2004 Data	**Target**	100 percent
FY 2004 Data	**Rating**	**On Target**
FY 2004 Data	**Impact**	DCHA/OFDA grantees obtained valuable guidance from OFDA field staff and technical experts through the grant application review process. This resulted in improved NGO program design capacity and more refined future submissions.
Indicator #2: Number/Percent of Crisis-Prone Countries That Have Systems to Warn about Shocks and Their Effects on Food Availability/Access by Vulnerable People		
FY RESULTS HISTORY	**2001**	N/A (new indicator in FY 2004)
FY RESULTS HISTORY	**2002**	N/A (new indicator in FY 2004)
FY RESULTS HISTORY	**2003**	N/A (new indicator in FY 2004)
FY 2004 Data	**2004** Preliminary or Provisional **Results**	◆ The results specified above, which were collected on an Agency-wide basis, are considered the targets for FY 2004 for this indicator. Since it is a new Indicator for FY 2004, the process of assigning targets and reporting on their results is still in an early stage of maturity, and will improve as targets are formally established and tracked in FY 2005 and beyond.
FY 2004 Data	**Target**	This information is not available at this time, but will be updated in the FY 2004 USAID PAR Addendum in March 2005.
FY 2004 Data	**Rating**	This information is not available at this time, but will be updated in the FY 2004 USAID PAR Addendum in March 2005.
FY 2004 Data	**Impact**	This is an important first step and good indicator towards reducing vulnerabilities to disasters and building capacity to anticipate and respond appropriately.

PROGRAM GOAL: PARTNER ACCOUNTABILITY *(continued)*		
Indicator #3: Number of Institutions Reconstructed and Rehabilitated (Homes, Water/Sanitation Facilities, Schools, Markets, etc.)		
FY RESULTS HISTORY	**2001**	N/A (new indicator in FY 2004)
	2002	N/A (new indicator in FY 2004)
	2003	N/A (new indicator in FY 2004)
FY 2004 Data	**2004** Preliminary or Provisional **Results**	500 institutions rehabilitated (expert opinion)
	Target	500
	Rating	**On Target**
	Impact	DCHA/OFDA met the critical shelter needs of many people displaced by conflict or natural disasters around the world.

VI. PROGRAM EVALUATIONS AND PART REVIEWS

Two program evaluations were conducted in FY 2004 that pertained to this Strategic Goal.

1) Evaluation: USAID/OFDA Humanitarian Assistance Program in Angola 2000-2003

2) World Health Organization Child Health Data 2004.pdf

Angola Enterprise Development Alliance

Public-private alliances have allowed USAID and its partners to adopt an approach that deepens the impact of joint interventions in the countries where USAID works. For example, the Angola Enterprise Development Alliance with ChevronTexaco is an unprecedented public-private alliance in which the parties work together on program design, while USAID takes the lead on programming, solicitation, obligation, and implementation. Through a commitment of $10 million fully matched by a USAID investment of $10 million, the alliance targets agribusiness development; small, medium, and micro enterprise development; financial sector capacity-building for expanded access to credit services; and financial and technical support services to agribusiness activities, such as seed multiplication and crop diversification. One immediate impact of these efforts will be to help reintegrate 100,000 ex-combatants, whose dependents exceed 350,000, into the formal economy. This flagship alliance has nearly doubled the mission's programming budget while advancing ChevronTexaco's Corporate Social Responsibility (CSR) goals to develop Angola's workforce and cultivate local business support services along its in-country supply chain.

The Enterprise Development Alliance provides farm extension agents to help formerly displaced families in Angola.

HUMANITARIAN ASSISTANCE — BENCHMARK INDICATORS

USAID adopted two benchmark indicators for Humanitarian Assistance in 1999. These are Crude Mortality Rate (CMR) and Nutritional Status of Children Under-Five. These indicators are useful for monitoring the extent the entire relief system is meeting the needs of populations in crisis, and thus the overall impact of humanitarian effort. They are appropriate for complex humanitarian emergencies, because the response is necessarily system wide with various partners and other donors of the humanitarian community providing relief. As such, USAID uses these indicators as an overall global monitoring of the situation with its partners including UN organizations and PVO/NGOs. The Nutrition Information Crisis Situations (NICS) of the United Nations Standing Committee on Nutrition (UN SCN) compiled and analysed nutrition data from all partners and emergency sites, supported by USAID and other donors (see trend analysis below). The Complex-Emergencies Database (CE-DAT) at the Centre for Research on the Epidemiology for Disasters (CRED) has just been established which will enable similar reporting on CMR next year.

Nutritional Status of Children Under-Five

NUTRITION TREND ANALYSIS SHOWS THAT COMPARED WITH LAST YEAR, THE SITUATION IMPROVED IN 18 PERCENT OF EMERGENCY SITES, REMAINED STABLE IN 68 PERCENT OF SITES, AND DETERIORATED IN 23 PERCENT OF SITES.

Results:

Results of anthropometric nutrition surveys between January 2003 and June 2004 were analyzed. One hundred ninety-eight emergency sites were surveyed in 22 countries (16 African countries, four Asian countries, one country in Middle East, and one country in South America).

No target was set for FY 2004 while consultations were underway with technical partners to establish baselines and systems to support this analysis. Once the CMR data is available, USAID will set its target for these indicators by the *incremental number of emergency sites being monitored, defined as the availability of reliable, updated current year data.* Achieving this target will take effort and resources since there is a dearth of reliable data. As a first critical necessary step, USAID will continue its effort to standardize assessment methodologies and establish supporting comprehensive systems to ensure that all emergency sites are monitored.

For 57 emergency sites, data was available to compare current or FY 2004 prevalence levels with the previous year. This analysis shows that the nutrition situation improved in 18 percent of the sites, remained stable in 68 percent of the sites and deteriorated in 23 percent of the sites. Although the situation appears to be stable or improving in most cases, the FY 2004 prevalence level of acute malnutrition (wasting) was acceptable in only 18 percent of the sites, according to the WHO classification of nutrition status. The rest was poor (33 percent), serious (20 percent) or critical (29 percent). The most critical situations were found among Sudanese refugees in Chad, Sudanese and Somali refugees in Kenya, resident population of Rift valley in Kenya, among displaced and resident populations in Sudan, especially in Darfur and South Sudan, among displaced and resident populations in Somalia and among resident populations in Eritrea and Pakistan. USAID will monitor these critical situations closely so that situations will improve, particularly in emergency sites where it provides funding.

SUMMARY TABLE: NUTRITION SITUATION IN EMERGING SITES *(according to surveys conducted between Januaary 2003 and June 2004)*			
Number of emergency sites surveyed	**Severity of the nutrition situation % (no. of sites)**	**Trends in the prevalence of malnutrition compared to the previous year % (no. of sites)**	**Comparison with a Comparative Reference Point (CRP)**
AFRICA			
ANGOLA			
11	Acceptable: 45% (5) Poor: 55% (6)	Stable: 83% (5) Decrease: 17% (1)	Possible for 1 IDP camp; CRP: surrounding resident population Equal to CRP:100%
BURUNDI			
3	Acceptable: 33% (1) Poor: 66% (2)	No data available	No data available
CHAD (REFUGEES FROM DARFUR-SUDAN)			
3	Critical: 100% (3) (acute Malnutrition > 25%)	No data available	Possible for 2 sites CRP: surrounding resident population Equal to CRP: 100%
DEMOCRATIC REPUBLIC OF CONGO			
12	Acceptable: 8% (1) Poor: 50% (6) Serious: 25% (3) Critical: 16% (2)	Stable: 100% (1)	No data available
ERITREA			
6	Serious: 50% (3) Critical: 50% (3)	Stable: 100% (1)	No data available
ETHIOPIA			
35	Acceptable: 9% (3) Poor: 43% (15) Serious: 34% (12) Critical: 14% (5)	Decrease: 75% (3) Increase: 25% (1)	No data available
IVORY COAST			
16	Acceptable: 12.5% (2) Poor: 69% (11) Serious: 12.5% (2) Critical: 6% (1)	No data available	CRP= DHS survey 1998/99, rural/urban Below CRP: 50% Above CRP: 50%

(continued on next page)

SUMMARY TABLE: NUTRITION SITUATION IN EMERGING SITES *(continued)*
(according to surveys conducted between Janauary 2003 and June 2004)

Number of emergency sites surveyed	Severity of the nutrition situation % (no. of sites)	Trends in the prevalence of malnutrition compared to the previous year % (no. of sites)	Comparison with a Comparative Reference Point (CRP)
AFRICA *(continued)*			
KENYA			
Refugees from Somalia and Sudan			
2	Critical: 100% (2)	Increase: 100% (2)	Possible for 1 site CRP: surrounding resident population Equal to CRP: 100%
Residents			
2	Critical: 100% (2)	No data available	CRP: MICS 2000 by region Above CRP: 100%
LIBERIA			
9	Acceptable: 33% (3) Poor: 66% (6)	No data available	No data available
REPUBLIC OF CONGO			
2	Serious: 100% (2)	No data available	No data available
SIERRA LEONE (REFUGEES FROM LIBERIA)			
8	Acceptable: 12.5% (1) Poor: 50% (4) Serious: 25% (2) Critical: 12.5% (1)	Decrease: 67% (4) Stable: 33% (2)	No data available
SOMALIA			
13	Poor: 8% (1) Serious: 38% (5) Critical: 54% (7)	Stable:100% (3)	No data available
SUDAN			
39	Poor: 5% (2) Serious: 20% (8) Critical: 75% (29)	Decrease: 36% (5) Stable: 43% (6) Increase: 21% (3)	Possible for 8 IDP camps. CRP: surrounding resident populations Equal to CRP: 37% Above CRP: 63%
TANZANIA (REFUGEES FROM BURUNDI/DRC)			
11	Acceptable: 55% (6) Poor: 45% (5)	Stable: 82% (9) Increase: 18% (2)	No data available

(continued on next page)

SUMMARY TABLE: NUTRITION SITUATION IN EMERGING SITES *(continued)*
(according to surveys conducted between Januaary 2003 and June 2004)

Number of emergency sites surveyed	Severity of the nutrition situation % (no. of sites)	Trends in the prevalence of malnutrition compared to the previous year % (no. of sites)	Comparison with a Comparative Reference Point (CRP)
AFRICA *(continued)*			
UGANDA			
7	Acceptable: 43% (3) Poor: 43% (3) Serious: 14% (1)	Stable:100% (2)	No data available
ZAMBIA (REFUGEES FROM ANGOLA)			
1	Acceptable: 100% (1)	No data available	DHS 2001/2002 by region Equal to CRP: 100%
ASIA			
AFGHANISTAN			
7	Acceptable: 57% (4) Poor: 14% (1) Serious: 14% (1) Critical: 14% (1)	Stable: 100% (2)	No data available
BANGLADESH (REFUGEES FROM MYANMAR)			
1	Serious: 100% (1)	No data available	CRP: DHS 1999/2000, rural areas Equal to CRP: 100%
NEPAL (REFUGEES FROM BHUTAN)			
2	Poor: 100% (2)	Stable: 100% (2)	CRP: DHS 2001, eastern Nepal Equal to CRP: 100%
PAKISTAN			
Refugees from Afghanistan			
4	Acceptable: 75% (3) Poor: 25% (1)	Stable: 100% (2)	No data available
Residents			
2	Poor: 50% (1) Critical: 50% (1)	No data available	No data available
MIDDLE EAST			
OCCUPIED PALESTINIAN TERRITORIES			
1	Acceptable: 100% (1)	Stable: 100% (1)	CRP: national PCBS survey 2000 Equal to CRP: 100%
SOUTH AMERICA			
COLOMBIA			
1	Acceptable: 100% (1)	No data available	

Theoretical Background on the Use of Nutritional Status of Children Under-Five

Physical growth in childhood is a proxy indicator of the nutritional well-being of a population. Typically, weight and height are measured and compared with the average values for the international reference population of well-nourished North American children (the NCHS population). Deviations from the reference population are usually expressed either as standard deviations (also called Z scores) from the reference median, or as a percentage of the reference median. Classification according to Z-scores is recommended by WHO as the more statistically valid method1. It should be noted that the Z score and percentage of median methods are not statistically equivalent, and therefore results obtained using the different methods are not comparable. Acute malnutrition is defined as weight/height <-2Z scores and/or the presence of oedema. Severe acute malnutrition is defined as weight/height <-3Z scores and/or oedema.

Selection of the Nutrition Data

Nutrition data were taken from surveys, which used a probabilistic sampling methodology, complying with internationally agreed standards. The following studies were not taken into account:

- those for which the methodology was impossible to check
- those for which rely on data collected using convenience sample methodologies
- those for whose methodology was not in agreement with WHO/international standard

Nutrition data were taken from surveys, which assessed children aged between six to 59 months (65 to 110 cm).

Severity of the nutrition situation compared to standard

The WHO definition was used (WHO, 2000, the management of severe malnutrition in major emergencies, WHO: Geneva)

Severity of the nutrition situation	Prevalence of wasting (acute malnutrition)
Acceptable	< 5%
Poor	5-9%
Serious	10-14%
Critical	>= 15%

Comparison with the previous year

Where available, data of the emergency sites were compared to data recorded in the same area in the previous year.

Comparison with a Comparative Reference Point (CRP)

Were defined as comparative reference points:

Resident populations

Data of representative surveys at emergency site, regional or national level, carried out at a time when political and climate situation was estimated "normal".

Refugee/displaced population

Data of representative surveys of surrounding resident populations in the same environmental conditions.

CRP could be determined mostly for refugees and displaced populations and for "new crises", e.g. second intifada in Occupied Palestinian Territories or crisis in Ivory Coast.

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[1] WHO (2002) The management of Nutrition in Major Emergencies. Geneva: WHO

[2] SMART (2002) www.smartindicators.org

[3] Médecins sans Frontières (1995) Nutritional guidelines. Paris: Médecins sans Frontières

STRATEGIC OBJECTIVE #3: STRENGTHEN DIPLOMATIC AND PROGRAM CAPABILITIES

The fulfillment of the Agency's mission and the achievement of its policy goals are inextricably linked to a foundation of sound management and organizational excellence required by the President's Management Agenda (PMA). This foundation is essential to support the work of USAID's Missions and Programs. The Agency is committed to maintaining a well-qualified workforce, supported by modern infrastructure that provides the tools to achieve its development goals worldwide. Building this foundation will require significant investments in people, systems, and facilities.

The following strategic goal falls under this strategic objective:

- Strategic Goal 8: Management and Organizational Excellence

STRATEGIC GOAL 8: MANAGEMENT AND ORGANIZATIONAL EXCELLENCE

Ensure a High Quality Workforce Supported by Modern and Secure Infrastructure and Operational Capacities

I. PUBLIC BENEFIT

The context of foreign assistance has changed dramatically since USAID's origin in the Marshall Plan and establishment as an independent agency in 1961. Rapid technological change, the end of the Cold War, the growing menace of global terrorism, and the surge of HIV/AIDS and other life-threatening diseases have combined to alter the 21st century landscape. The security of the United States now depends on freedom and opportunity beyond the nation's borders. President Bush has recognized foreign assistance as a vital cornerstone of national security. The President's September 2002 National Security Strategy, issued shortly after the 9/11 attacks on the United States, emphasizes development as one of the three essential components of U.S. foreign policy alongside defense and diplomacy.

Building on the National Security Strategy, USAID and the State Department have created a Joint Strategic Plan, a Joint Policy Council, and a Joint Management Council to strengthen their collaboration when and where it makes sense. They are working together to review their policies, programs, and administrative services and continuously improve coordination, eliminate redundancies, and ensure intended results.

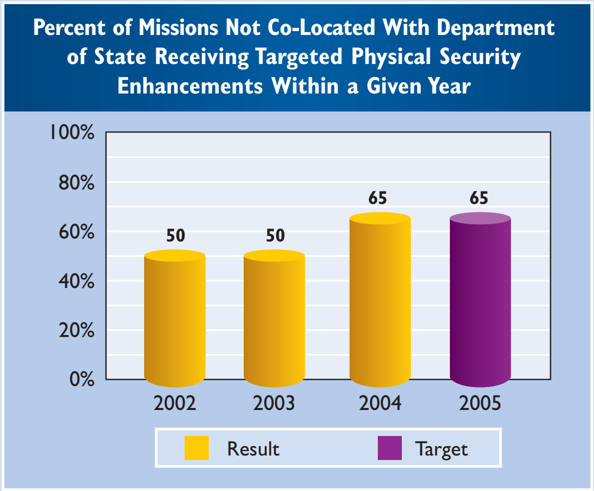
In FY 2004, USAID published a white paper listing five major foreign assistance goals: promoting transformation or sustainable development, strengthening fragile states, providing humanitarian relief, promoting U.S. geostrategic interests, and mitigating global and transnational ills. The Agency's Business Transformation plan is helping USAID achieve these core missions. In addition, reflecting USAID's business improvements in the Management Bureau, it has shown consistently improving scores on the Administrator's annual Agency-wide survey of employee satisfaction with management services. The Agency has demonstrated financial accountability; USAID received its second unqualified ("clean") audit opinion from the Office of Inspector General (OIG) for its FY 2004 annual financial statements. USAID has launched the Development Readiness Initiative (DRI) to recruit and train the Agency's 21st century workforce in the skills needed to meet future challenges. Its streamlined employee performance evaluation process promises to boost employee morale and motivation, and USAID has launched an automated human resource (HR) tool to simplify and quicken USAID's job recruitment procedures.

The Agency has laid the groundwork for an Agency-wide Enterprise Architecture (EA) (an information technology (IT) blueprint) and developed a new Capital Planning and Investment Control (CPIC) process that are helping USAID get the most value out of its IT investments. USAID's CPIC process has been recognized as among the best in the federal government. USAID has established a Program Management Office (PMO) to apply best practices in IT project management and risk mitigation to its IT and e-Government initiatives, and to make sure new systems work and are delivered on time and within budget. The Agency has implemented knowledge management tools to bring development professionals together "virtually" to share experiences and best practices for improved program performance. USAID has developed a strategic budgeting model to enable it to link performance and resource allocation more efficiently. USAID is additionally making good progress in modernizing its financial and procurement systems to enable greater speed, transparency, and accountability in its business transactions. The Agency is also showing steadily improving scores in all five initiatives of the PMA: Strategic Management of Human Capital, Improved Financial Management, Expanded e-Government, Competitive Sourcing, and Budget and Performance Integration.

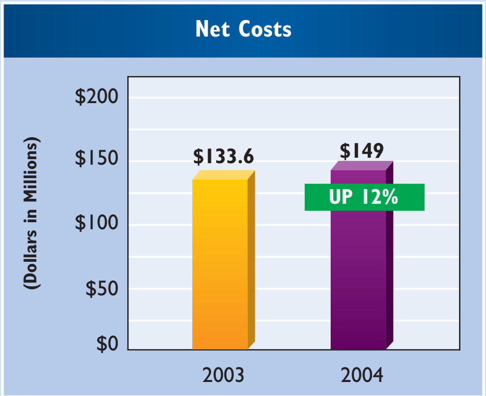
USAID's next steps will include overseas implementation of its new financial system, Phoenix, along with new procurement software that will integrate with State's financial platform. These systems will standardize and Web-enable the two entities' core business processes to reduce costs, make systems easier to use, and enhance their ability to respond to emerging program needs. USAID will also begin to implement reforms of its new overseas business model, and it will continue to expand and mainstream the highly successful Global Development Alliance into the Agency's day-to-day business activities.

There are three underlying purposes to all the activities described above: 1) to establish a customer service culture making the Agency's own business systems as cost effective and user friendly as possible; 2) to increase transparency in program and business decision-making, assuring that decisions are fast, results-driven, and clearly understandable to large and small partners; and 3) to ensure accountability and compliance with the letter and spirit of the law and to achieve a clean audit opinion, deter legal disputes, and acquire a sterling reputation for sound management.

II. SELECTED PERFORMANCE TRENDS



III. RESOURCES INVESTED



IV. ILLUSTRATIVE EXAMPLE OF SIGNIFICANT ACHIEVEMENT

Development Readiness Initiative (DRI)

The Development Readiness Initiative, modeled after the Department of State's successful Diplomatic Readiness Initiative, was launched by Administrator Natsios in FY 2004. The DRI is the most aggressive recruitment effort to rebuild and revitalize the Agency's workforce in more than a decade. This initiative, the cornerstone of the Agency's succession planning efforts, provides surge capacity to respond quickly to emerging program priorities. Over the next three years, the Agency plans to hire a total of 250 additional employees, thereby increasing the direct hire workforce from 2,000 in FY 2004 to 2,250 by FY 2006 (assuming full funding). These new employees are being recruited through several hiring mechanisms. Entry-level Foreign Service Officers are being recruited and trained through the International Development Intern (IDI) program. The Agency is reinstating a Contract Specialist Intern Program (CSIP) and expanding the use of Presidential Management Fellows (PMF) to fill critical skill gaps in its procurement staff and other Washington-based Civil Service positions. The additional employees provided by the DRI enable USAID to immediately fill important, longstanding vacant positions; increase the levels of oversight and accountability of organizations receiving taxpayer funds by U.S. direct hire employees; allow more employees to attend training without creating coverage gaps; and respond to new and emerging program requirements without reassigning employees.

Strategic Budgeting Model

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

Phoenix Accounting System Deployment

Over the past several years, USAID has made significant progress in modernizing its business systems by: implementing a new core accounting system, Phoenix, in Washington, D.C.; planning for the integration of Phoenix with the State Department's accounting system through the Joint Financial Management System (JFMS) project; planning to deploy Phoenix overseas along with a new State-USAID Joint Acquisition and Assistance Management System (JAAMS); and by participating in numerous cross-agency e-Government initiatives through the PMA.

Phoenix has been successfully implemented in Washington and now supports Washington-based accounting transactions. The Agency ran pilot programs of the system in five overseas missions during the summer of 2004 and will fully replace the Mission Accounting and Control System (MACS) with Phoenix in up to 40 overseas missions by December 2005.

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

CPIC Process Implementation

USAID established new CPIC procedures that are streamlined and compliant with federal regulations. The new procedures were designed to implement investment practices required by the Clinger-Cohen Act of 1996. This legislation requires that major IT investments be supported by comprehensive business cases, evaluation and control mechanisms, and be approved by a high level executive body representing agency-wide business interests. The Business Transformation Executive Committee (BTEC) services as the CPIC authority for USAID. To ensure that approved projects are meeting the objectives described in business cases, quarterly progress reports are required.

Increased HR Capacity to Support USAID's Mission

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

Joint State Department/USAID Collaboration

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

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

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

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

KEY ACHIEVEMENTS

USAID's important achievements on the policy front and in the delivery of its foreign aid program have been greatly facilitated by the management improvements and reforms of the Agency's business system begun several years ago. These reforms have made USAID a more efficient and effective agency. Among this year's management accomplishments, USAID has:

- Demonstrated financial accountability, receiving the Agency's second unqualified ("clean") audit opinion from the Office of Inspector General (OIG) for its FY 2004 annual financial statements.
- Begun deploying the Agency's new financial management system (Phoenix) overseas to enhance decision-making and enable fast and accountable transactions.
- Reduced late payment penalties to vendors by $127 thousand as a result of financial management improvements.
- Developed the comprehensive Human Capital Strategic Plan to cover FY 2004-2008 and identified short-term priorities in order to improve the Agency's ability to build, sustain, and effectively deploy a high-performing workforce and ultimately achieve program results.
- Completed the first year of the Development Readiness Initiative (DRI) to recruit and train the Agency's 21st century workforce in the skills needed to meet future challenges.
- Streamlined and automated the Agency's recruitment process, reducing the hiring cycle from 229 days to less than 45 days from job announcement to employee selection, in conformance with Office of Personnel Management (OPM) standards.
- Hired 85 new limited-term Foreign Service employees per year for three years (FY 2004 through FY 2006) for overseas assignments.
- Streamlined the employee performance evaluation process to boost employee morale and motivation.
- Shown consistently improving scores on the Administrator's annual Agency-wide survey of employee satisfaction with management services.
- Laid the groundwork for a joint Enterprise Architecture (EA) (an IT blueprint) with the Department of State and upgraded USAID's new Capital Planning and Investment Control (CPIC) process to get the most business value out of its IT investments.
- Established a Program Management Office (PMO) to apply best practices in IT project management and risk mitigation to USAID's IT and e-Government initiatives, and to make sure new systems work and are delivered on time and within budget.
- Implemented knowledge management systems and methods to capture and share development expertise and new ideas.
- Established a Knowledge Inventory, an online catalogue of Agency provided or supported development databases, communities of practice, training resources, and other knowledge assets in order to enhance awareness and access.
- Developed a strategic budgeting model to enable the Agency to link performance and resource allocation more efficiently. Use of it is now focused on key sectors such as population and HIV/AIDS.
- Begun reform of the Agency's strategic management system to better link programs to foreign policy, to improve performance management and reporting, and to generally streamline what had become a very cumbersome, rigid, and time-consuming process.
- Completed an Office of Management and Budget (OMB) Program Assessment Rating Tool (PART) review of USAID's operating expense (OE) and Capital Investment Fund (CIF) functions, ranking in the top one-third of all federal programs reviewed under the PART. The high score was due in large part to recently implemented management reforms, such as the use of performance information to make process improvements, and the use of CPIC processes to improve the selection and oversight of IT investments.
- Approved reduction in the number of formats for Indefinite Quantity contracts, a frequently used contracting mechanism, in order to reduce the amount of time contracting officers spend to create and award contracts.
- Established the USAID Office of Faith-based and Community Initiatives to encourage new partners.

V. PERFORMANCE RESULTS

SUMMARY OF PROVISIONAL OR PRELIMINARY RESULTS — STRATEGIC GOAL 8			
Total Goals and Indicators		**Performance Summary**	
Number of Performance Goals	4	Number of Targets Met	5
Number of Program Goals	4	Number with Data Lags	0
Number of Indicators	5		

PERFORMANCE GOAL #1

Modernized, Secure, and High Quality Information Technology Management and Infrastructure that Meet Critical Business Requirements

FY 2004 Net Program Costs – $41,352,992

PROGRAM GOAL : SECURE GLOBAL NETWORK AND INFRASTRUCTURE		
Achieve the Agency's IT goals by establishing a reliable and secure global telecommunications and processing infrastructure.		
Performance Indicator #1: Percentage of IT Systems Certified & Accredited (PART)		
FY RESULTS HISTORY	**2001**	N/A (new indicator in FY 2004)
	2002	N/A (new indicator in FY 2004)
	2003	N/A (new indicator in FY 2004)
FY 2004 Data	**2004** Preliminary or Provisional **Results**	100
	Target	60
	Rating	**Exceeds Target**
	Impact	The 100% Certification and Accreditation (C&A) of USAID's nine mission critical information technology (IT) systems and applications will enable the Agency to perform its mission critical financial and inspection functions for development and humanitarian relief at reduced risk. The mission critical systems include the Agency's internal communications network (Aidnet), office-specific information systems of the Inspector General (IG) and the Office of Foreign Disaster Assistance (OFDA), the New Management Systems (NMS) Acquisition and Assistance Module, and the Phoenix and related financial systems.

PROGRAM GOAL : SECURE GLOBAL NETWORK AND INFRASTRUCTURE *(continued)*		
Performance Indicator #2: Number of Information Security Vulnerabilities Per Information Technology (IT) Hardware Item (e.g., printer, computer) (PART)		
FY RESULTS HISTORY	**2001**	N/A (new indicator in FY 2004)
	2002	N/A (new indicator in FY 2004)
	2003	N/A (new indicator in FY 2004)
FY 2004 Data	**2004** Preliminary or Provisional **Results**	.09
	Target	1
	Rating	**Exceeds Target**
	Impact	As a result of achieving low information security vulnerabilities per IT hardware item, the Agency operates in a more secure environment. This is important because it allows the Agency to carry out its day to day activities and accomplish its mission with minimal disruption.

PERFORMANCE GOAL #2

Secure, Safe, and Functional Facilities Serving Domestic and Overseas Staff

FY 2004 Net Program Costs - $208,278

PROGRAM GOAL: COMPOUND SECURITY PROGRAM		
Compound security provides technical security (e.g., alarms, cameras, lighting, CCTVs) and physical security (e.g., perimeter security, vaults, safe havens, escape hatches) installations and upgrades to Department overseas facilities to protect employees from terrorist and other security threats.		
Indicator #1: Percent of Missions Not Co-Located With Department of State Receiving Targeted Physical Security Enhancements Within a Given Year (PART)		
FY RESULTS HISTORY	**2001**	N/A (new indicator in FY 2002)
	2002	20%
	2003	33%
FY 2004 Data	**2004** Preliminary or Provisional **Results**	31%
	Target	31%
	Rating	**On Target**
	Impact	Providing the targeted physical security enhancements minimized potential vulnerabilities to the transnational terrorist threat, increasing security for USAID staff and enabling them to accomplish the Agency's development and humanitarian relief objectives.

PERFORMANCE GOAL #3

Integrated Budgeting, Planning, and Performance Management; Effective Financial Management; and Demonstrated Financial Accountability

FY 2004 Net Program Costs - $107,498,342

PROGRAM GOAL: IMPROVED FINANCIAL PERFORMANCE		
Provide world-class financial services that support strategic decision-making, mission performance, the President's Management Agenda (PMA), and improved accountability to the American people.		
Performance Indicator #1: Total Number of Federal Managers' Financial Integrity Act (FMFIA) and Auditor Identified Material Weaknesses Identified (PART)		
FY RESULTS HISTORY	2001	N/A (new indicator in FY 2002)
	2002	First Year Data Reported: 10
	2003	6
FY 2004 Data	2004 Preliminary or Provisional Results	3
	Target	6
	Rating	**Exceeds Target**
	Impact	The strong FY 2004 result is important because it indicates that the Agency is taking aggressive actions to implement financial and general management improvements. What will happen or what did happen because of the achieved results? Specifically, the Agency has reduced computer security vulnerabilities to a manageable level and it has continued to improve upon financial processes. How do the results move the Agency closer to a desired outcome? The ultimate result is an unqualified certification on management controls by USAID's Administrator (under the FMFIA) and a clean opinion from the Inspector General on the Agency's financial statements indicating that USAID's overall financial and management position has been strengthened.

PERFORMANCE GOAL #4

Customer-Oriented, Innovative Delivery of Administrative and Information Services, and Assistance

FY 2004 Net Program Costs – $525,430

PROGRAM GOAL: CUSTOMER-ORIENTED MANAGEMENT SERVICES		
Ensuring that USAID Management Services are directed at and generated by the staff that uses them.		
Performance Indicator #1: Average "Margin of Victory" on Customer Service Survey for Management Offices		
FY RESULTS HISTORY	2001	N/A (new indicator in FY 2003)
	2002	N/A (new indicator in FY 2003)
	2003	First Year Data Reported: 51.6
FY 2004 Data	2004 Preliminary or Provisional Results	54.3
	Target	54.6
	Rating	On Target
	Impact	The average "Margin of Victory" on the Administrator's customer service survey in FY2004 indicates that USAID's management offices have improved customer service since FY2003. The higher score reflects increased satisfaction with management services, especially in such areas as Information Resources Management, Financial Management, Administrative Services, and procurement, and indicates increasingly effective support to Agency functions.

VI. PROGRAM EVALUATIONS AND PART REVIEWS

Three Program Evaluations and one PART Review for the FY 2004 budget process were conducted in FY 2004 that pertained to this Strategic Goal.

1) OMB/USAID Operating Expense/Capital Investment Fund Program Assessment Rating Tool (PART), July 2004

2) OIG Standards for Success Accomplishment Report Fiscal Year 2003, available on the Web at http://www.usaid.gov/oig/public/standards_success_report_fy2003.pdf

3) OIG Semi-Annual Reports to Congress, available on the Web at http://www.usaid.gov/oig/public/semiann/semiannual1.htm

4) Independent Auditor's Report on USAID's Consolidated Financial Statements, Internal Controls, and Compliance for Fiscal Years 2003 and 2002,; November 14, 2003; available on the web at http://www.usaid.gov/oig/public/fy04rpts/0-000-04-001-c.pdf.

USAID supports alliances that promote management and organizational excellence. One example of how alliances support management and organizational excellence is the Certified International Accounting Professional (CIPA) Examination Alliance in Russia.

The CIPA Examination Alliance will implement training, examination, and certification programs in Russia. This program has already been implemented successfully in Ukraine, Moldova, and Central Asia, and has resulted in the formation of the International Council of Certified Accountants and Auditors (ICCAA). This council brought together the 10 largest accounting associations of Russia, Ukraine, Moldova, and the Central Asian countries and now requires that its members be CIPA certified.

Its partners include The Center for Business Skills Development (CBSD), The American Institute of Certified Public Accountants (AICPA), Institute of Chartered Accountants of England and Wales (ICAEW), International Federation of Accountants (IFAC), Certified General Accountants of Canada (CGA), International Council of Certified Auditors and Accountants (ICCAA), and International Accounting Standards Committee Foundation.

This alliance will provide over three million accountants access to the Russian-language International Financial Reporting Standards (IFRS) certification and will train over 30,000 enterprise accountants. The program will also result in the certification of 10,000 Certified Accountant Practitioners (CAP) and 2,000 receiving the full CIPA certification. The adoption and implementation of IFRS to countries in the region will achieve several objectives. First, IFRS promotes economic growth through increased foreign investment, as potential investors are better able to value and assess firms. Second, IFRS advances the global integration of these countries since IFRS is required of all 25 EU countries by 2005. Third, through increased transparency and financial reporting standards, the adoption of IFRS can have an important impact in combating corruption and money laundering, enhancing corporate governance, and improving education. Finally, the program focuses on empowering women, since the role of accountant in the former Soviet Union is a traditionally female job, and 85 percent of CIPA participants to date have been women. It is estimated that it will take two years for the project to be fully sustainable.

USAID will support this alliance with $500,000 of Global Development Alliance (GDA) Incentive Funds, including an expected $1.5 million from within USAID's Europe & Eurasia Bureau and Missions. This GDA will additionally leverage in-kind and cash contributions from partners of approximately $5 million.

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Financial Section

Introduction to the Principal Financial Statements

The Principal Financial Statements (Statements) have been prepared to report the financial position and results of operations of the U.S. Agency for International Development (USAID or Agency). The Statements have been prepared from the books and records of the Agency in accordance with formats prescribed by the Office of Management and Budget (OMB) in OMB bulletin 01-09, *Form and Content of Agency Financial Statements.* The Statements are in addition to financial reports prepared by the Agency in accordance with OMB and U.S. Department of the Treasury (Treasury) directives to monitor and control the status and use of budgetary resources, which are prepared from the same books and records. The Statements should be read with the understanding that they are for a component of the U.S. Government, a sovereign entity. The Agency has no authority to pay liabilities not covered by budgetary resources. Liquidation of such liabilities requires enactment of an appropriation.

For 2004, the Consolidated Statement of Net Cost presents net costs by goal which are different from those displayed in last year's financial statements. USAID implemented a new Joint State-USAID Strategic Plan in FY 2004. To the extent practicable, Agency costs by goal are presented based on the Joint State-USAID plan hierarchy. For comparative purposes, 2003 amounts have been recast consistent with the 2004 presentation.

The ***Consolidated Balance Sheet*** provides information on amounts available for use by USAID (assets); the amounts owed (liabilities); and amounts that comprise the difference between assets and liabilities, which is the Agency's net financial position or equity, similar to the balance sheets reported in the private sector. Comparative data for FY 2003 are included and intra-Agency balances have been eliminated from the amounts presented.

The ***Consolidated Statement of Net Cost*** reports the components of the net costs of the Agency's operations for the period. The net cost of operations consists of the gross cost incurred by the Agency, less any exchange (i.e., earned) revenue from our activities. Comparative data for FY 2003 are included and intra-Agency balances have been eliminated from the amounts presented.

The ***Consolidated Statement of Changes in Net Position*** reports the beginning net position, the transactions that affect net position for the period, and the ending net position. The components of net position are separately displayed in two columns, Cumulative Results of Operations and Unexpended Appropriations, to more clearly identify the components of and changes to Net Position. Comparative data for FY 2003 are included and intra-Agency balances have been eliminated from the amounts presented.

The ***Combined Statement of Budgetary Resources*** provides information on how budgetary resources were made available for the year and the status of budgetary resources at year-end. Information in this statement is reported on the budgetary basis of accounting. Comparative data for FY 2003 are included and intra-Agency balances have been eliminated from the amounts presented.

The ***Consolidated Statement of Financing*** reconciles net obligations reported on the Statement of Budgetary Resources to net costs reported on the Statement of Net Costs. Comparative data for FY 2003 are included and intra-Agency balances have been eliminated from the amounts presented.

The ***Notes to Principal Financial Statements*** are an integral part of the financial statements. They provide explanatory information to help financial statement users to understand, interpret, and use the data presented.

Required Supplementary Information provides information on intra-governmental asset and liability amounts, along with details on USAID's budgetary resources at year-end.

Other Accompanying Information presents Consolidating Financial Statements that provide detailed program and fund data supporting the financial statements.

History of USAID's Financial Statements

In accordance with the Government Management Reform Act (GMRA), USAID has prepared consolidated fiscal year-end financial statements since FY 1996. The USAID Office of Inspector General (OIG) is required to audit these statements, related internal controls, and Agency compliance with applicable laws and regulations. From FY 1996 through FY 2000, the OIG was unable to express an opinion on USAID's financial statements because the Agency's financial management systems could not produce complete, reliable, timely, and consistent financial information.

For FY 2001, the OIG was able to express qualified opinions on three of the five principal financial statements of the Agency, while continuing to issue a disclaimer of opinion on the remaining two. For FY 2002, the OIG expressed unqualified opinions on four of the five principal financial statements and a qualified opinion on the fifth. This marked the first time since enactment of the GMRA that USAID received an opinion on all of its financial statements. We are extremely pleased that the efforts of both Agency and OIG staff have resulted in an unqualified opinion on all of the financial statements for FY 2003 and FY 2004.

Financial Statements

U.S. Agency for International Development
CONSOLIDATED BALANCE SHEET
As of September 30, 2004 and 2003
(in thousands)

	FY 2004	FY 2003
ASSETS		
Intragovernmental		
Fund Balance with Treasury (Note 2)	$ 15,854,926	$ 14,215,414
Accounts Receivable (Note 3)	1,031,168	1,134,074
Advances (Note 4)	30,920	32,998
Total Intragovernmental	16,917,014	15,382,486
Cash and Other Monetary Assets (Note 5)	257,201	240,412
Accounts Receivable, Net (Note 3)	69,800	66,313
Loans Receivable, Net (Note 6)	6,108,252	5,696,597
Inventory and Related Property (Note 7)	35,764	24,027
General Property, Plant, and Equipment, Net (Note 8 and 9)	81,954	64,333
Advances and Prepayments (Note 4)	559,686	350,067
Total Assets	**24,029,671**	**21,824,235**
LIABILITIES (Note 16)		
Intragovernmental		
Accounts Payable (Note 10)	29,523	27,299
Debt (Note 11)	111,081	79,165
Due to U.S. Treasury (Note 11)	6,033,925	5,669,725
Other Liabilities (Note 12, 13, and 14)	420,574	14,843
Total Intragovernmental	6,595,103	5,791,032
Accounts Payable (Note 10)	1,960,478	1,842,778
Loan Guarantee Liability (Note 6)	1,039,937	1,159,415
Federal Employees and Veteran's Benefits (Note 14)	24,523	27,400
Other Liabilities (Note 12)	353,750	511,257
Total Liabilities	9,973,791	9,331,882
Commitments and Contingencies (Note 15)		
NET POSITION		
Unexpended Appropriations	13,395,387	11,777,877
Cumulative Results of Operations	660,493	714,476
Total Net Position	14,055,880	12,492,353
Total Liabilities and Net Position	**$ 24,029,671**	**$ 21,824,235**

The accompanying notes are an integral part of these statements.

U.S. Agency for International Development
CONSOLIDATED STATEMENT OF NET COSTS
For the Years Ended September 30, 2004 and 2003
(In Thousands)

Goal	FY 2004	FY 2003
Regional Stability		
Intragovernmental	$ 13,161	$ 19,196
With the Public	641,109	369,695
Total Costs	654,270	388,891
Less Earned Revenues	(1,271)	(618)
Net Program Costs	652,999	388,273
Counterterrorism		
Intragovernmental	16,604	805
With the Public	112,915	77,010
Total Costs	129,519	77,815
Less Earned Revenues	(54)	(26)
Net Program Costs	129,465	77,789
International Crime and Drugs		
Intragovernmental	4,383	3,053
With the Public	72,701	112,848
Total Costs	77,084	115,901
Less Earned Revenues	(295)	(98)
Net Program Costs	76,789	115,803
Democracy and Human Rights		
Intragovernmental	20,209	27,999
With the Public	1,260,638	875,202
Total Costs	1,280,847	903,201
Less Earned Revenues	(3,789)	(892)
Net Program Costs	1,277,058	902,309
Economic Prosperity and Security		
Intragovernmental	118,496	170,454
With the Public	3,270,365	3,644,744
Total Costs	3,388,861	3,815,198
Less Earned Revenues	(14,339)	(82,596)
Net Program Costs	3,374,522	3,732,602
Social and Environmental Issues		
Intragovernmental	357,063	301,995
With the Public	4,021,570	3,296,720
Total Costs	4,378,633	3,598,715
Less Earned Revenues	(66,842)	(103,951)
Net Program Costs	4,311,791	3,494,764

(continued on next page)

The accompanying notes are an integral part of these statements.

U.S. Agency for International Development
CONSOLIDATED STATEMENT OF NET COSTS *(continued)*
For the Years Ended September 30, 2004
(In Thousands)

Goal	FY 2004	FY 2003
Humanitarian Response		
Intragovernmental	173,977	72,002
With the Public	542,815	1,034,835
Total Costs	716,792	1,106,837
Less Earned Revenues	(66,133)	(2,318)
Net Program Costs	650,659	1,104,519
Management and Organizational Excellence		
Intragovernmental	5,388	18,839
With the Public	41,022	136,522
Total Costs	46,410	155,361
Less Earned Revenues	(424)	(592)
Net Program Costs	45,986	154,769
Public Diplomacy and Public Affairs		
Intragovernmental	152	1,738
With the Public	34,338	21,054
Total Costs	34,490	22,792
Less Earned Revenues	(177)	(56)
Net Program Costs	34,313	22,736
Net Costs of Operations (Note 17)	**$ 10,553,582**	**$ 9,993,565**

The accompanying notes are an integral part of these statements.

U.S. Agency for International Development
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the periods ended September 30, 2004 and 2003
(in thousands)

	FY 2004		FY 2003	
	Cumulative Results of Operations	**Unexpended Appropriations**	**Cumulative Results of Operations**	**Unexpended Appropriations**
Beginning Balances	$ 714,476	$ 11,777,877	$ 578,345	$ 10,065,290
Prior period adjustments (Note 19)	–	–	1,690	–
Beginning Balances, as adjusted	714,476	11,777,877	580,035	10,065,290
Budgetary Financing Sources:				
Appropriations Received	–	9,186,373	–	10,536,974
Appropriations transferred-in/out	–	2,122,641	–	113,059
Other adjustments (recissions, etc)	–	(49,538)	–	(51,797)
Appropriations used	9,641,966	(9,641,966)	8,885,648	(8,885,648)
Nonexchange revenue	–	–	–	–
Donations and forfeitures of cash and cash equivalents	83,683	–	100,316	–
Transfers-in/out without reimbursement	763,675	–	1,128,139	–
Other budgetary financing sources	–	–	–	–
Other Financing Sources:				
Transfers-in/out without reimbursement	1,823	–	–	–
Imputed financing from costs absorbed by others	8,452	–	13,902	–
Total Financing Sources	10,499,599	1,617,510	10,128,005	1,712,588
Net Cost of Operations	10,553,582	–	9,993,565	–
Ending Balance	**$ 660,493**	**$13,395,387**	**$ 714,476**	**$11,777,877**

The accompanying notes are an integral part of these statements.

U.S. Agency for International Development
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the Years Ended September 30, 2004 and 2003
(In Thousands)

	FY 2004		FY 2003	
	Budgetary	**Credit Program Financing**	**Budgetary**	**Credit Program Financing**
Budgetary Resources				
Budget Authority				
Appropriations Received	$ 9,260,278	$ –	$ 10,801,068	$ –
Borrowing Authority (Note 20)	–	–	–	62,886
Net Transfers	1,812,100	–	(436,693)	–
Other	–	–	–	–
Total Budget Authority	11,072,378	–	10,364,375	62,886
Unobligated Balance:				
Beginning of Period	2,288,520	981,619	1,592,265	798,979
Net Transfers, Actual	96,959	–	(1,684)	–
Total Unobligated Balance	2,385,479	981,619	1,590,581	798,979
Spending Authority from Offsetting Collections:				
Earned				
Collected	906,735	218,325	892,844	208,543
Receivable from Federal Sources	(237)	–	(5,961)	11,328
Change in Unfilled Customer Orders	–	–		
Advance Received	4,594	–	(331)	–
Anticipated for Rest of Year, Without Advances	–	–	–	–
Subtotal	911,092	218,325	886,552	219,871
Recoveries of Prior Year Obligations	140,910	3,955	158,594	14,180
Permanently Not Available	(1,079,492)	(1,184)	(712,773)	(465)
Total Budgetary Resources	**13,430,367**	**1,202,715**	**12,287,329**	**1,095,451**
Status of Budgetary Resources:				
Obligations Incurred (Note 20)	11,174,333	234,102	9,973,855	113,832
Unobligated Balance, Available	2,224,129	968,613	2,172,882	981,619
Unobligated Balance, Unavailable	31,905	–	140,592	–
Total Status of Budgetary Resources	**13,430,367**	**1,202,715**	**12,287,329**	**1,095,451**
Relationship of Obligations to Outlays:				
Obligated Balance, Net, Beginning of Period	10,573,245	1,597	9,431,741	26,868
Obligated Balance Transferred, Net	–	–	1,819	–
Obligated Balance, Net, End of Period:				
Accounts Receivable	(3,691)	–	(3,832)	–
Unfilled Customer Orders From Federal Sources	–	–	–	–
Undelivered Orders	11,284,640	10,604	9,209,121	1,731
Accounts Payable	1,469,017	427	1,367,956	(135)
Outlays:				
Disbursements	8,722,076	220,712	8,680,899	113,597
Collections	(1,122,466)	(2,595)	(892,551)	(208,543)
Subtotal	7,599,610	218,117	7,788,348	(94,946)
Less: Offsetting Receipts	–	–	–	–
Net Outlays	**$ 7,599,610**	**$ 218,117**	**$ 7,788,348**	**$ (94,946)**

The accompanying notes are an integral part of these statements.

U.S. Agency for International Development
CONSOLIDATED STATEMENT OF FINANCING
For the years ended September 30, 2004 and 2003
(in thousands)

	FY 2004	FY 2003
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred (Note 20)	$ 11,408,435	$ 10,087,687
Appropriations transferred to/from other agencies (net)	1,206,427	1,440,612
Total Obligations Incurred (Note 21)	12,614,862	11,528,299
Less: Spending authority from offsetting collections and recoveries (Note 20)	(1,274,282)	(1,279,197)
Spending authority transferred to/from other agencies (net)	172,331	(52,961)
Total spending authority from offsetting collections and recoveries	(1,446,613)	(1,332,158)
Net Obligations	11,168,250	10,196,140
Other Resources		
Donated and Credit Program Revenue	(123,505)	(170,456)
Imputed Financing From Costs Absorbed by Others	8,452	13,902
Total Resources Used to Finance Activities	**11,053,196**	**10,039,587**
Resources Used to Finance Items not Part of the Net Cost of Operations:		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided	(1,397,036)	(1,318,994)
Resources that fund expenses recognized in prior periods	3,163	20
Budgetary offsetting collections and receipts that do not affect net cost of operations		
Credit program collections which increase liabilities for loan guarantees or allowances for subsidy	1,070,144	1,091,885
Other	(218)	(6,057)
Resources that finance the acquisition of assets	20,159	80,309
Total Resources Used to Finance items not part of net cost of operations	**(303,788)**	**(152,837)**
Total Resources Used to Finance Net Cost of Operations	**10,749,409**	**9,886,750**
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods (Note 20):		
Increase in annual leave liability	1,242	2,168
Upward/Downward reestimates of credit subsidy expense	(208,678)	98,115
Increase in exchange revenue receivable from the public	37,031	36,435
Total	(170,405)	136,718
Components not Requiring or Generating Resources		
Depreciation and Amortization	15,186	6,925
Revaluation of assets or liabilities	(805)	3,133
Other	(39,802)	(39,961)
Total	(25,421)	(29,903)
Total components of net cost of operations that will not require or generate resources in the current period	**(195,827)**	**106,815**
Net Cost of Operations	**$ 10,553,582**	**$ 9,993,565**

The accompanying notes are an integral part of these statements.

USAID FY 2004 Footnotes to the Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

These financial statements report USAID's financial position and results of operations. They have been prepared using USAID's books and records in accordance with Agency accounting policies, the most significant of which are summarized in this note. The statements are presented in accordance with the applicable form and content requirements of the Office of Management and Budget (OMB) Bulletin 01-09, Form and Content of Agency Financial Statements, and the Government Management Reform Act of 1994.

USAID accounting policies follow generally accepted accounting principles for the Federal government, as recommended by the Federal Accounting Standards Advisory Board (FASAB). The FASAB has been recognized by the American Institute of Certified Public Accountants (AICPA) as the official accounting standard set for the Federal government. These standards have been agreed to, and published by the Director of the Office of Management and Budget, the Secretary of the Treasury, and the Comptroller General.

B. Reporting Entity

Established in 1961 by President John F. Kennedy, USAID is the independent U.S. Government agency that provides economic development and humanitarian assistance to advance United States economic and political interests overseas.

Programs

The financial statements reflect the various program activities, shown by appropriation in the financial statements, which include such programs as the Iraq Relief and Reconstruction Fund, Economic Support Fund, Development Assistance, Assistance for the New Independent States of the Former Soviet Union, Special Assistance Initiatives, International Disaster Assistance, Child Survival and Disease, Central America and the Caribbean Emergency Disaster Recovery Fund, Transition Initiatives, and Direct and Guaranteed Loan Programs. This classification is consistent with the Budget of the United States.

Iraq Relief and Reconstruction Fund

This fund supports necessary expenses related to providing humanitarian assistance in and around Iraq and to carrying out the purposes of the Foreign Assistance Act of 1961 for rehabilitation and reconstruction in Iraq. These include costs of: (1) water/sanitation infrastructure; (2) feeding and food distribution; (3) supporting relief efforts related to refugees, internally displaced persons, and vulnerable individuals, including assistance for families of innocent Iraqi civilians who suffer losses as a result of military operations; (4) electricity; (5) healthcare; (6) telecommunications; (7) economic and financial policy; (8) education; (9) transportation; (10) rule of law and governance; (11) humanitarian de-mining; and (12) agriculture.

Economic Support Fund

Programs funded through this account provide economic assistance to select countries in support of efforts to promote stability and U.S. security interests in strategic regions of the world.

Development Assistance

This program provides economic resources to developing countries with the aim of bringing the benefits of development to the poor. The program promotes broad-based, self-sustaining economic growth and supports initiatives intended to stabilize population growth, protect the environment and foster increased democratic participation in developing countries. The program is concentrated in those areas in which the United States has special expertise and which promise the greatest opportunity for the poor to better their lives.

Assistance for the New Independent States of the Former Soviet Union

This account provides funds for a program of assistance to the independent states that emerged from the former Soviet Union. These funds support U.S. foreign policy goals of consolidating improved U.S. security; building a lasting partnership with the New Independent States; and providing access to each other's markets, resources, and expertise.

Special Assistance Initiatives

This program provides funds to support special assistance activities. The majority of funding for this program was for democratic and economic restructuring in Central and Eastern European countries consistent with the objectives of the Support for East European Democracy (SEED) Act. All SEED Act programs support one or more of the following strategic objectives: promoting broad-based economic growth with an emphasis on privatization, legal and regulatory reform and support for the emerging private sector; encouraging democratic reforms; and improving the quality of life including protecting the environment and providing humanitarian assistance.

International Disaster Assistance

Funds for the International Disaster Assistance Program provide relief, rehabilitation, and reconstruction assistance to foreign countries struck by disasters such as famines, floods, hurricanes and earthquakes. The program also provides assistance in disaster preparedness, and prevention and mitigation.

Child Survival and Disease

This program provides economic resources to developing countries to support programs to improve infant and child nutrition, with the aim of reducing infant and child mortality rates; to reduce HIV transmission and the impact of the HIV/AIDS pandemic in developing countries; to reduce the threat of infectious diseases of major public health importance such as polio, and malaria; and to expand access to quality basic education for girls and women.

Transition Initiatives

This account funds humanitarian programs that provide post-conflict assistance to victims of natural and man-made disasters. Until FY 2001, this type of assistance was funded under the International Disaster Assistance account.

Direct and Guaranteed Loans:

- **Direct Loan Program**

  These loans are authorized under Foreign Assistance Acts, various predecessor agency programs, and other foreign assistance legislation. Direct Loans are issued in both U.S. dollars and the currency of the borrower. Foreign currency loans made "with maintenance of value" place the risk of currency devaluation on the borrower, and are recorded in equivalent U.S. dollars. Loans made "without maintenance of value" place the risk of devaluation on the U.S. Government, and are recorded in the foreign currency of the borrower.

- **Urban and Environmental Program**

  The Urban and Environmental (UE) program, formerly the Housing Guarantee Program, extends guaranties to U.S. private investors who make loans to developing countries to assist them in formulating and executing sound housing and community development policies that meet the needs of lower income groups.

- **Micro and Small Enterprise Development Program**

  The Micro and Small Enterprise Development (MSED) Program supports private sector activities in developing countries by providing direct loans and loan guarantees to support local micro and small enterprises. The MSED program had one new loan guarantee for FY 2004. Although the MSED program is still active, the bulk of USAID's new loan guarantee activity is handled through the Development Credit Authority (DCA) program.

◆ **Israeli Loan Guarantee Program**

Congress enacted the Israeli Loan Guarantee Program in Section 226 of the Foreign Assistance Act to support the costs for immigrants resettling to Israel from the former Soviet Union, Ethiopia, and other countries. Under this program, the U.S. Government guaranteed the repayment of up to $10 billion in loans from commercial sources, to be borrowed in $2 billion annual increments. Borrowing was completed under the program during Fiscal Year 1999, with approximately $9.2 billion being guaranteed. Guarantees are made by USAID on behalf of the U.S. Government, with funding responsibility and basic administrative functions guarantees for Israel, not to exceed $9 billion and $1.3 billion in guarantees were resting with USAID. In FY 2003, Congress authorized a second portfolio of loan issued under this portfolio during FY 2003.

◆ **Ukraine Guarantee Program**

The Ukraine Export Credit Insurance Program was established with the support of the Export-Import Bank of the U.S. to assist Ukrainian importers of American goods. The program commenced operations in Fiscal Year 1996 and expired in Fiscal Year 1999. The Ukraine Financing Account was closed out in FY 2002, and no new activity is expected.

◆ **Development Credit Authority**

The first obligations for USAID's new Development Credit Authority (DCA) were made in FY 1999. DCA allows missions and other offices to use loans and loan guarantees to achieve their development objectives when it can be shown that: 1) the project generates enough revenue to cover the debt service including USAID fees, 2) there is at least 50% risk-sharing with a private-sector institution, and 3) the DCA guarantee addresses a financial market failure in-country and does not "crowd-out" private sector lending. DCA can be used in any sector and by any USAID operating unit whose project meets the DCA criteria. DCA projects are approved by the Agency Credit Review Board and the Chief Financial Officer.

Fund Types

The accompanying consolidated financial statements for USAID include the accounts of all funds under USAID's control. Most of the fund accounts relate to general fund appropriations. USAID also has special fund, revolving fund, trust fund, deposit funds, capital investment fund, receipt account, and budget clearing accounts.

General fund appropriations and the Special fund are used to record financial transactions under Congressional appropriations or other authorization to spend general revenue.

Revolving funds are established by law to finance a continuing cycle of operations, with receipts derived from such operations usually available in their entirety for use by the fund without further action by Congress.

Trust funds are credited with receipts generated by the terms of the trust agreement or statute. At the point of collection, these receipts are unavailable, depending upon statutory requirements, or available immediately.

The capital investment fund contains no year funds to provide the Agency with greater flexibility to manage investments in technology systems and facility construction that the annual appropriation for Operating Expenses does not allow.

Deposit funds are established for (1) amount received for which USAID is acting as a fiscal agent or custodian, (2) unidentified remittances, (3) monies withheld from payments for goods or services received, and (4) monies held waiting distribution on the basis of legal determination.

C. Basis of Accounting

Transactions are recorded on both an accrual and budgetary basis. Under the accrual basis, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints on, and controls of, the use of federal funds.

The accompanying Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position have been prepared on an accrual basis. The Statement of Budgetary Resources has been prepared in accordance with budgetary accounting rules. Finally, the Statement of Financing has been prepared to reconcile budgetary to financial (proprietary) accounting information.

D. Budgets and Budgetary Accounting

The components of USAID's budgetary resources include current budgetary authority (that is, appropriations and borrowing authority) and unobligated balances remaining from multi-year and no-year budget authority received in prior years. Budget authority is the authorization provided by law to enter into financial obligations that result in immediate or future outlays of federal funds. Budgetary resources also include reimbursement and other income (that is, spending authority from offsetting collections credited to an appropriation of fund account) and adjustments (that is, recoveries of prior year obligations).

Unobligated balances associated with appropriations that expire at the end of the fiscal year remain available for obligation adjustments, but not new obligations, until that account is canceled. When accounts are canceled five years after they expire, amounts are not available for obligations or expenditure for any purpose and are returned to Treasury.

Pursuant to Section 511 of USAID's Appropriations Act for certain purposes under the Foreign Assistance Act of 1961, as amended, shall remain available for obligation for an extended period if such funds are initially obligated within their initial period of availability.

E. Revenues and Other Financing Sources

USAID receives the majority of its funding through congressional appropriations --annual, multi-year, and no-year appropriations -- that may be used within statutory limits. Appropriations are recognized as revenues at the time the related program or administrative expenses are incurred. Appropriations expended for capitalized property and equipment are not recognized as expenses. In addition to funds warranted directly to USAID, the agency also receives allocation transfers from the U.S. Department of Agriculture (USDA) Commodity Credit Corporation, the Executive Office of the President, and the Department of State.

Additional financing sources for USAID's various credit programs and trust funds include amounts obtained through collection of guaranty fees, interest income on rescheduled loans, penalty interest on delinquent balances, permanent indefinite borrowing authority from U.S. Treasury, proceeds from the sale of overseas real property acquired by USAID, and advances from foreign governments and international organizations.

Revenues are recognized as financing sources to the extent that they were payable to USAID from other agencies, other governments and the public in exchange for goods and services rendered to others.

F. Fund Balances with the U.S. Treasury

Cash receipts and disbursements are processed by the U.S. Treasury. The balances with Treasury are primarily appropriated funds that are available to pay current liabilities and finance authorized purchase commitments, but they also include revolving, deposit, and trust funds.

G. Foreign Currency

The Direct Loan Program has foreign currency funds, which are used to disburse loans in certain countries. Those balances are reported at the U.S. dollar equivalents using the exchange rates prescribed by the U.S. Treasury. A gain or loss on translation is recognized for the change in valuation of foreign currencies at year-end. Additionally, some USAID host countries contribute funds for the overhead operation of the host Mission and the execution of USAID programs. These funds are held in trust and reported in U.S. dollar equivalents on the balance sheet and statement of net costs.

H. Accounts Receivable

Accounts receivable consist of amounts due mainly from foreign governments but also from other Federal agencies and private organizations. USAID regards amounts due from other Federal agencies as 100 percent collectible. The Agency establishes an

allowance for uncollectible accounts receivable for non-loan or revenue generating sources that have not been collected for a period of over one year.

I. Loans Receivable

Loans are accounted for as receivables after funds have been disbursed. For loans obligated before October 1, 1991 (the pre-credit reform period), loan principal, interest, and penalties receivable are reduced by an allowance for estimated uncollectible amounts. The allowance is estimated based on a net present value method prescribed by OMB that takes into account country risk and projected cash flows.

For loans obligated on or after October 1, 1991, the loans receivable are reduced by an allowance equal to the net present value of the cost to the U.S. government of making the loan. This cost, known as "subsidy", takes into account all cash inflows and outflows associated with the loan, including the interest rate differential between the loans and Treasury borrowing, the estimated delinquencies and defaults net of recoveries, and offsets from fees and other estimated cash flows. This allowance is re-estimated when necessary and changes reflected in the operating statement.

Loans have been made in both U.S. dollars and foreign currencies. Loans extended in foreign currencies can be with or without "Maintenance of Value" (MOV). Those with MOV place the currency exchange risk upon the borrowing government; those without MOV place the risk on USAID. Foreign currency exchange gain or loss is recognized on those loans extended without MOV, and reflected in the net credit programs receivable balance.

Credit program receivables also include origination and annual fees on outstanding guarantees, interest on rescheduled loans and late charges. Claims receivables (subrogated and rescheduled) are due from foreign governments as a result of defaults for pre-1992 guaranteed loans. Receivables are stated net of an allowance for uncollectible accounts, determined using an OMB approved net present value default methodology.

While estimates of uncollectible loans and interest are made using methods prescribed by OMB, the final determination as to whether a loan is collectible is also affected by actions of other U.S. Government agencies.

J. Advances and Prepayments

Funds disbursed in advance of incurred expenditures are recorded as advances. Most advances consist of funds disbursed under letters of credit to contractors and grantees. The advances are liquidated and recorded as expenses upon receipt of expenditure reports from the recipients.

K. Inventory and Related Property

USAID's inventory and related property is comprised of operating materials and supplies. Some operating materials and supplies are held for use and consist mainly of computer paper and other expendable office supplies not in the hands of the user. USAID also has materials and supplies in reserve for foreign disaster assistance stored at strategic sites around the world. These consist of tents, vehicles, and water purification units. The Agency also has birth control supplies stored at several sites.

USAID's office supplies are deemed items held for use because they are tangible personal property to be consumed in normal operations. Agency supplies held in reserve for future use are not readily available in the market, or there is more than a remote chance that the supplies will be needed, but not in the normal course of operations. Their valuation is based on cost and they are not considered "held for sale". USAID has no supplies categorizable as excess, obsolete, or unserviceable operating materials and supplies.

L. Property, Plant and Equipment

USAID capitalizes all property, plant and equipment that has an acquisition cost of $25,000 or greater and a useful life of two years or more. Acquisitions that do not meet these criteria are recorded as operating expenses. Assets are capitalized at historical cost and depreciated using the straight-line method. Real property is depreciated over 20 years, nonexpendable personal property is depreciated over 3 to 5 years, and capital leases are depreciated according to the terms of the lease. The Agency operates land, buildings, and equipment that are provided by the General Services Administration. Rent for this property is expensed. Internal use software that has development costs of $300,000 or greater is capitalized. Deferred maintenance amounts are immaterial with respect to the financial statements.

M. Liabilities

Liabilities represent the amount of monies or other resources that are likely to be paid by USAID as the result of transactions or events that have already occurred. However, no liability can be paid by the Agency without an appropriation or borrowing authority. Liabilities for which an appropriation has not been enacted are therefore classified as liabilities not covered by budgetary resources (unfunded liabilities), and there is no certainty that the appropriations will be enacted. Also, these liabilities can be abrogated by the U.S. Government, acting in its sovereign capacity.

N. Liabilities for Loan Guarantees

The Credit Reform Act (CRA) of 1990, which became effective on October 1, 1991, has significantly changed the manner in which USAID's loan programs finance their activities. The main purpose of CRA was to more accurately measure the cost of Federal credit programs and to place the cost of such programs on a budgetary basis equivalent to other Federal spending. Consequently, commencing in fiscal 1992, USAID cannot make new loans or guarantees without an appropriation available to fund the cost of making the loan or guarantee. This cost is known as "subsidy".

For USAID's loan guarantee programs, when guarantee commitments are made, an obligation for subsidy cost is recorded in the program account. This cost is based on the net present value of the estimated net cash outflows to be paid by the Program as a result of the loan guarantees, except for administrative costs, less the net present value of all cash inflows to be generated from those guarantees. When the loans are disbursed, the subsidy cost is disbursed from the program account to a financing account.

For loan guarantees made before the CRA (pre-1992), the liability for loan guarantees represents an unfunded liability. Footnote 6 presents the unfunded amounts separate from the post-1991 liabilities. The amount of unfunded liabilities also represents a future funding requirement for USAID. The liability is calculated using a reserve methodology that is similar to OMB prescribed method for post-1991 loan guarantees.

O. Annual, Sick, and Other Leave

Annual leave is accrued as it is earned and the accrual is reduced as leave is taken. Each year, the balance in the accrued annual leave account is adjusted to reflect current pay rates. To the extent that current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources. Sick leave and other types of leave are expensed as taken.

P. Retirement Plans and Post Employment Benefits

USAID recognizes its share of the cost of providing future pension benefits to eligible employees over the period of time the employees provide the related services. The pension expense recognized in the financial statements equals the current service cost for USAID employees for the accounting period less the amount contributed by the employees. The measurement of the service cost requires the use of an actuarial cost method and assumptions. OPM administers these benefits and provides the factors that USAID applies to report the cost. The excess of the pension expense over the amount contributed by USAID and employees represents the amount being financed directly through the Civil Service Retirement and Disability Fund administered by OPM. This cost is considered imputed cost to USAID.

USAID recognizes a current-period expense for the future cost of post retirement health benefits and life insurance for its employees while they are still working. USAID accounts for and reports this expense in its financial statements in a manner similar to that used for pensions, with the exception that employees and USAID do not make contributions to fund these future benefits.

Federal employee benefit costs paid by OPM and imputed by USAID are reported on the Statement of Financing and the Statement of Net Cost.

Q. Net Position

Net position is the residual difference between assets and liabilities. It is composed of unexpended appropriations and cumulative results of operations.

- Unexpended appropriations are the portion of the appropriations represented by undelivered orders and unobligated balances.
- Cumulative results of operations are also part of net position. This account reflects the net difference between (1) expenses and losses and (2) financing sources, including appropriations, revenues and gains, since the inception of the activity.

R. Non-entity Assets

Non-entity fund balances are amounts in Deposit Fund accounts. These include such items as: funds received from outside sources where the government acts as fiscal agent, monies the government has withheld awaiting distribution based on legal determination, and unidentified remittances credited as suspense items outside the budget. For USAID, non-entity assets are minimal in amount and as reflected in Note 3, composed solely of accounts receivables, net of allowances.

S. Agency Costs

USAID costs of operations are comprised of program and operating expenses. USAID/Washington program expenses by goal are obtained directly from Phoenix, the Agency general ledger. Mission related program expenses by goal area are obtained from the Mission Accounting and Control system (MACS). A cost allocation model is used to distribute operating expenses, including Management Bureau, Global Development Alliance, Trust Funds and Support Offices costs to specific goals. Expenses related to Credit Reform and Revolving Funds are directly applied to specific agency goals based on their objectives.

NOTE 2. FUND BALANCES WITH TREASURY (IN THOUSANDS)

Fund Balances with Treasury as of September 30, 2004 and 2003 consisted of the following:

Fund Balances with Treasury (in thousands)

Fund Balances	FY 2004	FY 2003
Trust Funds	$33,255	$23,253
Revolving Funds	1,435,616	1,312,955
Appropriated Funds	14,324,552	12,894,164
Other Funds	61,503	(14,958)
Total	$15,854,926	$14,215,414

Status of Fund Balance:	FY 2004	FY 2003
Unobligated Balance		
Available	$1,193,906	$3,260,019
Unavailable	18,142	7,294
Obligated Balance Not Yet Disbursed	14,642,878	10,948,101
Total	$15,854,926	$14,215,414

As of September 30, 2004 there was a cash reconciliation difference of $94.8 million between USAID and the Department of Treasury's Fund Balances. The difference as of September 30, 2003 was $34.6 million. For FY 2004 and FY 2003 reporting purposes, USAID adjusted its fund balance by these differences to equal the Department of Treasury's fund balance. By adjusting USAID's fund balance to equal Treasury's fund balance, there is consistency between various published reports. Also, based on past experience, the Department of Treasury's balances are more accurate and the differences are usually cleared when USAID processes the required disbursements.

The $94.8 million cash reconciliation difference was posted to separate Fund Balance sub-accounts and the cash differences remain identified as such. USAID is currently performing a reconciliation of the $94.8 million total amount in these accounts and will make adjustments accordingly.

NOTE 3. ACCOUNTS RECEIVABLE, NET

The primary components of USAID's accounts receivable as of September 30, 2004 are as follows:

Accounts Receivable, Net
(in thousands)

	Receivable Gross	Allowance Accounts	Receivable Net 2004	Receivable Net 2003
Entity				
Intragovernmental				
Appropriation Reimbursements from Federal Agencies	$ 225	N/A	$ 225	$ 209
Accounts Receivable from Federal Agencies Disbursing Authority	300,131	N/A	300,131	–
Less Intra-Agency Receivables	(73,679)	–	(73,679)	–
Receivable from USDA	804,491	N/A	804,491	1,133,865
Total Intragovernmental	1,031,168	N/A	1,031,168	1,134,074
Accounts Receivable	72,144	(6,873)	65,271	61,983
Total Entity	1,103,313	(6,873)	1,096,440	1,196,057
Total Non-Entity	4,848	(320)	4,528	4,330
Total Receivables	**$1,108,161**	**$ (7,193)**	**$ 1,100,968**	**$ 1,200,387**

Reconciliation of Uncollectible Amounts (Allowance Accounts)
(in thousands)

	FY 2004	FY 2003
Beginning Balance	$ 9,501	$ 14,346
Additions	(341)	1,636
Reductions	(1,967)	(6,481)
Ending Balance	$ 7,193	$ 9,501

Entity intragovernmental accounts receivable consist of amounts due from other U.S. Government agencies. No allowance has been established for the intragovernmental accounts receivable, which are considered to be 100 percent collectible. Disbursing Authority Receivable from USDA consists of obligational authority from the U.S. Department of Agriculture's Commodity Credit Corporation. The authority is for payment of transportation costs incurred by USAID associated with the shipment of Title II and III commodities; Farmer-to-Farmer Technical Assistance Programs; and for assistance to private voluntary organizations, cooperatives, and international organizations. Collections against this receivable are realized when USAID requests a transfer of funds from USDA to cover incurred expenses.

All other entity accounts receivable consist of amounts managed by Missions or USAID/Washington. These receivables consist of non-program related receivables such as overdue advances, unrecovered advances, audit findings, and any interest related to these types of receivables. A 100 percent allowance for uncollectible amounts is estimated for accounts receivable due from the public which are more that one year past due. Accounts receivable from Missions are collected and recorded to the respective appropriation.

Interest receivable is calculated separately and there is no interest included in the accounts receivable listed above.

NOTE 4. ADVANCES AND PREPAYMENTS

Advances and Prepayments as of September 30, 2004 and 2003 consisted of the following:

Advances and Prepayments (in thousands)

	FY 2004	FY 2003
Intragovernmental		
Advances to Federal Agencies	$ 30,920	$ 32,998
Total Intragovernmental	30,920	32,998
Advances to Contractors/Grantees	487,441	290,433
Travel Advances	2,480	1,763
Advances to Host Country Governments and Institutions	46,620	38,785
Prepayments	11,108	5,660
Advances, Other	12,037	13,425
Total Advances and Prepayments	$ 590,606	$ 383,065

Advances to Host Country Governments and Institutions represent amounts advanced by USAID missions to host country governments and other in-country organizations, such as educational institutions and voluntary organizations. Other Advances consist primarily of amounts advanced for living quarters and home service.

NOTE 5. CASH AND OTHER MONETARY ASSETS

Cash and Other Monetary Assets as of September 30, 2004 and 2003 are as follows:

Cash and Other Monetary Assets (in thousands)

Cash and Other Monetary Assets	FY 2004	FY 2003
Imprest Fund- Headquarters	$ 280	$ 140
UE and Micro and Small Enterprise Fund Cash w/Fiscal Agent	50	50
Foreign Currencies	256,871	240,222
Total Cash and Other Monetary Assets	$ 257,201	$ 240,412

USAID has imprest funds in various overseas locations. These funds are provided by the Department of State overseas U.S. Disbursing Officers to which USAID is liable for any shortages. USAID's cumulative balance of the Department of State provided imprest funds was $4.6 million in FY 2004 and $4.9 million in FY 2003. These imprest funds are not included in USAID's Balance Sheet.

Foreign Currencies are related to Foreign Currency Trust Funds and this amounted to $256.9 million in FY 2004 and $240.2 million in FY 2003. USAID does not have any non-entity cash or other monetary assets.

NOTE 6. LOANS RECEIVABLE AND LIABILITIES FOR LOAN GUARANTEES

USAID operates the following loan and/or loan guarantee programs:

- Direct Loan Program (Direct Loan)
- Urban and Environmental Program (UE)
- Micro and Small Enterprise Development Program (MSED)
- Ukraine Export Insurance Credit Program (Ukraine)
- Israel Loan Guarantee Program (Israel Loan)
- Development Credit Authority Program (DCA)

Direct loans resulting from obligations made prior to FY 1992 are reported net of allowance for estimated uncollectible loans. Estimated losses from defaults on loan guarantees resulting from obligations made prior to FY 1992 are reported as a liability.

The Credit Reform Act of 1990 prescribes an alternative method of accounting for direct loans and guarantees resulting from obligations made after FY 1991. Subsidy cost, which is the net present value of the cash flows (i.e. interest rates, interest supplements, estimated defaults, fees, and other cash flows) associated with direct loans and guarantees, is required by the Act to be recognized as an expense in the year in which the direct loan or guarantee is disbursed. Subsidy cost is calculated by agency program offices prior to obligation using a model prescribed by the Office of Management and Budget (OMB). Subsidy relating to existing loans and guarantees is generally required to be reestimated on an annual basis to adjust for changes in risk and interest rate assumptions. Direct loans are reported net of an allowance for this subsidy cost (allowance for subsidy). The subsidy costs associated with loan guarantees are reported as loan guarantee liability.

An analysis of loans receivable, loan guarantees, liability for loan guarantees, and the nature and amounts of the subsidy costs associated with the loans and loan guarantees are provided in the following sections.

The following net loan receivable amounts are not the same as the proceeds that USAID would expect to receive from selling its loans. Actual proceeds may be higher or lower depending on the borrower and the status of the loan.

Summary of Loans Receivables, Net	FY 2004	FY 2003
Net Direct Loans Obligated Prior to FY 1992 (Allowance for Loss Method)	$ 5,780,367	$ 5,334,382
Net Direct Loans Obligated After FY 1991 (Present Value Method)	32,248	7,829
Defaulted Guaranteed Loans from Pre-1992 Guarantees (Allowance for Loss Method)	295,637	354,386
Total Loans Receivable, Net as reported on the Balance Sheet	$ 6,108,252	$ 5,696,597

Direct Loans

DIRECT LOANS (IN THOUSANDS)

Loan Programs	Loans Receivables Gross	Interest Receivable	Allowance for Loan Losses	Value of Assets Related to Direct Loans
Direct Loans Obligated Prior to FY 1992 (Allowance for Loss Method) as of September 30, 2004:				
Direct Loans	$ 7,748,796	$ 296,481	$ 2,264,834	$ 5,780,443
MSED	677	89	842	(76)
Total	$ 7,749,473	$ 296,570	$ 2,265,676	$ 5,780,367
Direct Loans Obligated Prior to FY 1992 (Allowance for Loss Method) as of September 30, 2003:				
Direct Loans	$ 8,272,378	$ 322,098	$ 3,260,015	$ 5,334,461
MSED	1,360	90	1,529	(79)
Total	$ 8,273,738	$ 322,188	$ 3,261,544	$ 5,334,382

Direct Loans *(continued)*
(in thousands)

Loan Programs	Loans Receivables Gross	Interest Receivable	Allowance for Loan Losses	Value of Assets Related to Direct Loans
Direct Loans Obligated After FY 1991 as of September 30, 2004:				
Direct Loans	$ 259,542	$ 9,774	$ 237,215	$ 32,101
MSED	150	24	27	147
Total	$ 259,692	$ 9,798	$ 237,242	$ 32,248
Direct Loans Obligated After FY 1991 as of September 30, 2003:				
Direct Loans	$ 216,063	$ 7,413	$ 213,993	$ 9,483
MSED	(908)	133	879	(1,654)
Total	$ 215,155	$ 7,546	$ 214,872	$ 7,829

Total Amount of Direct Loans Disbursed
(in thousands)

Direct Loan Programs	FY 2004	FY 2003
Direct Loans	$ 8,008,339	$ 8,488,798
MSED	827	452
Total	$ 8,009,166	$ 8,489,250

Subsidy Expense for Direct Loans by Program and Component
(in thousands)

Direct Loan Programs	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Modifications and Reestimates (FY 2004)				
MSED	$ –	$ –	$ (29)	$ (29)
Total	**$ –**	**$ –**	**$ (29)**	**$ (29)**
Modifications and Reestimates (FY 2003)				
MSED	$ –	$ (49)	$ (169)	$ (218)
Total	**$ –**	**$ (49)**	**$ (169)**	**$ (218)**

Total Direct Loans Subsidy Expense
(in thousands)

Direct Loan Programs	FY 2004	FY 2003
MSED	$ (29)	$ (218)
Direct Loans	–	–
Total	**$ (29)**	**$ (218)**

Schedule for Reconciling Subsidy Cost Allowance Balances (Post-1991 Direct Loans) (in thousands)

	FY 2004			FY 2003		
	Direct Loan	MSED	Total	Direct Loan	MSED	Total
Beginning Balance, Changes, and Ending Balance						
Beginning balance of the subsidy cost allowance	$ 213,993	$ 879	$ 214,872	$ 186,673	$ 468	$187,141
Add: subsidy expense for direct loans disbursed during the reporting years by component:						
(a) Interest rate differential costs	–	–	–	–	–	–
(b) Default costs (net of recoveries)	–	–	–	–	–	–
(c) Fees and other collections	–	–	–	–	–	–
(d) Other subsidy costs	–	–	–	–	–	–
Total of the above subsidy expense components	–	–	–	–	–	–
Adjustments:						
(a) Loan modifications	$ –	$ –	$ –	$ 25,654	$ –	$ 25,654
(b) Fees received	–	–	–	–	–	
(c) Foreclosed property acquired	–	–	–	–	–	
(d) Loans written off	–	–	–	–	–	–
(e) Subsidy allowance amortization	10,585	(716)	9,869	3,356	629	3,985
(f) Other	12,637	(107)	12,530	(1,690)	–	(1,690)
Ending balance of the subsidy cost allowance before reestimates	$ 237,215	$ 56	$ 237,271	$ 213,993	$ 1,097	$215,090
Add or subtract subsidy reestimates by component:						
(a) Interest rate reestimate	–	–	–	–	(49)	(49)
(b) Technical/default reestimate	–	(29)	(29)	–	(169)	(169)
Total of the above reestimate components	–	(29)	(29)	–	(218)	(218)
Ending balance of the subsidy cost allowance	**$ 237,215**	**$ 27**	**$ 237,242**	**$213,993**	**$ 879**	**$214,872**

Defaulted Guaranteed Loans

Subsidy Expense for Direct Loans by Program and Component (in thousands)

Loan Guarantee Programs	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance For Loan Losses	Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net
Defaulted Guaranteed Loans from Pre-1992 Guarantees (Allowance for Loss Method): FY 2004				
UE	$ 452,432	$ 22,517	$ 179,312	$ 295,637
Total	**$ 452,432**	**$ 22,517**	**$ 179,312**	**$ 295,637**
Defaulted Guaranteed Loans from Pre-1992 Guarantees (Allowance for Loss Method): FY 2003				
UE	$ 514,611	$ 28,149	$ 188,374	$ 354,386
Total	**$ 514,611**	**$ 28,149**	**$ 188,374**	**$ 354,386**

Defaulted Guaranteed Loans from Post-1991 Guarantees

In FY 2004, the UE Program experienced $4.4 million in defaults on payments.

In FY 2003, the UE Program experienced $7.1 million in defaults on payments.

Guaranteed Loans Outstanding:

Guaranteed Loans Outstanding (in thousands)

Loan Guarantee Programs	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
Guaranteed Loans Outstanding (FY 2004):		
UE	$ 1,832,755	$ 1,832,755
MSED	76,400	38,200
Israel	12,322,417	12,322,417
DCA	789,799	341,500
Total	$ 15,021,371	$ 14,534,872
Guaranteed Loans Outstanding (FY 2003):		
UE	$ 1,954,929	$ 1,954,929
MSED	95,542	48,492
Israel	10,789,083	10,789,083
DCA	549,631	235,866
Total	$ 13,389,185	$ 13,028,370
New Guaranteed Loans Disbursed (FY 2004):		
UE	$ –	$ –
MSED	5,000	2,500
DCA	250,233	109,417
Israel	3,350,000	3,350,000
Total	$ 3,605,233	$ 3,461,917
New Guaranteed Loans Disbursed (FY 2003):		
UE	$ –	$ –
MSED	100	50
DCA	267,446	133,723
Total	$ 267,546	$ 133,773

Liability for Loan Guarantees
(in thousands)

Loan Guarantee Programs	Liabilities for Losses on Pre-1992 Guarantees, Estimated Future Default Claims	Liabilities for Loan Guarantees for Post-1991 Guarantees, Present Value	Total Liabilities for Loan Guarantees
Liability for Loan Guarantees (Estimated Future Default Claims for pre-1992 guarantees) as of September 30, 2004:			
UE	$ 242,171	$ 103,788	$ 345,959
MSED	–	(3,902)	(3,902)
Israel	–	700,855	700,855
DCA	–	(2,975)	(2,975)
Total	$ 242,171	797,766	$ 1,039,937
Liability for Loan Guarantees (Estimated Future Default Claims for pre-1992 guarantees) as of September 30, 2003:			
UE	$ 311,383	$ 175,521	$ 486,904
MSED	–	265	265
Israel	–	673,261	673,261
DCA	–	(1,015)	(1,015)
Total	$ 311,383	$ 848,032	$ 1,159,415

Subsidy Expense for Loan Guarantees by Program and Component:

Subsidy Expense for Loan Guarantees by Program and Component
(in thousands)

Loan Guarantee Programs	Interest Supplements	Defaults	Fees and Other Collections	Other	Total
Subsidy Expense for New Loan Guarantees (FY 2004):					
DCA	$ –	$ 993	$ –	$ –	$ 993
MSED	–	1,466	–	–	1,466
Total	$ –	$ 2,459	$ –	$ –	$ 2,459
Subsidy Expense for New Loan Guarantees (FY 2003):					
UE	$ –	$ 2,239	$ –	$ –	$ 2,239
DCA	–	3,413	–	–	3,413
Total	$ –	$ 5,652	$ –	$ –	$ 5,652

Subsidy Expense for Loan Guarantees by Program and Component *(continued)*
(in thousands)

Loan Guarantee Programs	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Modifications and Reestimates (FY 2004):				
UE	$ –	$ –	$ 2,194	$ 2,194
MSED	–	–	610	610
DCA	–	–	64	64
Total	**$ –**	**$ –**	**$ 2,868**	**$ 2,868**
Modifications and Reestimates (FY 2003):				
UE	$ –	$ –	$ 48,211	$ 48,211
MSED	–	–	4,163	4,163
Total	**$ –**	**$ –**	**$ 52,374**	**$ 52,374**

Total Loan Guarantee Subsidy Expense
(in thousands)

Loan Guarantee Programs	FY 2004	FY 2003
DCA	$ 1,057	$ 2,239
UE	2,194	48,211
MSED	2,076	7,576
Total	**$ 5,327**	**$ 58,026**

Subsidy Rates for Loan Guarantees by Program and Component:

Budget Subsidy Rates for Loan Guarantees for the Current Year's Cohorts
(in thousands)

Loan Guarantee Programs	Interest Supplements (%)	Defaults (%)	Fees and Other Collections (%)	Other (%)	Total (%)
DCA	–	3.71%	–	–	3.71%
MSED	–	9.61%	–	–	9.61%

Schedule for Reconciling Loan Guarantee Liability Balances (in thousands)

(Post-1991 Loan Guarantees)	DCA	MSED	UE	Israel	Total
FY 2004					
Beginning Balance, Changes, and Ending Balance					
Beginning balance of the loan guarantee liability	$ (1,015)	$ 265	$ 175,521	$ 673,261	$ 848,032
Add: subsidy expense for guaranteed loans disbursed during the reporting years by component:					
(a) Interest supplement costs	–	–	–	–	–
(b) Default costs (net of recoveries)	–	–	–	–	–
(c) Fees and other collections	–	–	–	–	–
(d) Other subsidy costs	993	1,466	–	–	2,459
Total of the above subsidy expense components	$ 993	$ 1,466	$ –	$ –	$ 2,459
Adjustments:					
(a) Loan guarantee modifications	–	–	–	–	–
(b) Fees received	–	–	2,468	88,200	90,668
(c) Interest supplements paid	–	–	–	–	–
(d) Foreclosed property and loans acquired	–	–	–	–	–
(e) Claim payments to lenders	–	–	(4,380)	–	(4,380)
(f) Interest accumulation on the liability balance	–	–	3,528	55,987	59,515
(g) Other	(765)	(3,522)	(71,514)	19,512	(56,289)
Ending balance of the loan guarantee liability before reestimates	$ (787)	$ (1,792)	$ 105,621	$ 836,960	$ 940,005
Add or subtract subsidy reestimates by component:					
(a) Interest rate reestimate	–	–	–	–	–
(b) Technical/default reestimate	(2,188)	(2,111)	(1,834)	(136,105)	(142,238)
Total of the above reestimate components	$ (2,188)	$ (2,111)	$ (1,834)	$(136,105)	$(142,238)
Ending balance of the loan guarantee liability	$ (2,975)	$ (3,902)	$ 103,788	$ 700,855	$ 797,766
FY 2003					
Beginning Balance, Changes, and Ending Balance					
Beginning balance of the loan guarantee liability	$ (2,484)	$ (431)	$ 58,315	$ 665,267	$ 720,668
Add: subsidy expense for guaranteed loans disbursed during the reporting years by component:					
(a) Interest supplement costs	–	–	–	–	–
(b) Default costs (net of recoveries)	–	–	–	–	–
(c) Fees and other collections	–	–	–	–	–
(d) Other subsidy costs	2,239	3,413	–	–	5,652
Total of the above subsidy expense components	$ 2,239	$ 3,413	$ –	$ –	$ 5,652
Adjustments:					
(a) Loan guarantee modifications	–	–	–	–	–
(b) Fees received	–	–	7,464	117,715	125,179
(c) Interest supplements paid	–	–	–	–	–
(d) Foreclosed property and loans acquired	–	–	–	–	–
(e) Claim payments to lenders	–	(2,318)	(7,077)	–	(9,395)
(f) Interest accumulation on the liability balance	–	–	4,693	44,736	49,429
(g) Other	40	(2,595)	63,914	–	61,359
Ending balance of the loan guarantee liability before reestimates	$ (205)	$ (1,931)	$ 127,310	$ 827,718	$ 952,892
Add or subtract subsidy reestimates by component:					
(a) Interest rate reestimate	–	–	–	–	–
(b) Technical/default reestimate	(811)	2,196	48,211	(154,457)	(104,860)
Total of the above reestimate components	$ (811)	$ 2,196	$ 48,211	$(154,457)	$(104,860)
Ending balance of the loan guarantee liability	$ (1,015)	$ 265	$ 175,521	$ 673,261	$ 848,032

Administrative Expense (in thousands)		
Loan Programs	**FY 2004**	**FY 2003**
DCA	$ 8,862	$ 8,155
UE	594	448
MSED	161	936
Total	**$ 9,617**	**$ 9,539**

Other Information

1. Allowance for Loss for Liquidating account (pre-Credit Reform Act) receivables have been calculated in accordance with OMB guidance using a present value method which assigns risk ratings to receivables based upon the country of debtor. Thirteen countries are in violation of Section 620q of the Foreign Assistance Act (FAA), owing $37.3 million that is more than six months delinquent. Twelve countries are in violation of the Brooke-Alexander Amendment to the Foreign Operations Export Financing and Related Programs Appropriations Act, owing $388 million that is more than one year delinquent. Outstanding direct loans receivable for countries in violation of Section 620q totaled $27.6 million. Outstanding direct loans receivable for countries in violation of the Brooke Amendment totaled $372 million.
2. The MSED Liquidating Account general ledger has a loan receivable balance of $689 thousand. This includes two loans pending closure. These loans are being carried at 100% bad debt allowance.
3. The Ukraine program guarantees have expired, and the Ukraine Financing Account was closed out in FY 2002.
4. For footnote presentation purposes, in the table "Direct Loans Obligated Prior to FY 1992 as of September 30, 2003", the Loans Receivable Gross amount for FY 2003 was decreased by $357 thousand in order to correct a footnote error that existed last year.

NOTE 7. INVENTORY AND RELATED PROPERTY

USAID's Inventory and Related Property is comprised of Operating Materials and Supplies. Operating Materials and Supplies as of September 30, 2004 and 2003 are as follows:

	FY 2004	FY 2003
Items Held for Use		
Office Supplies	$ 7,212	$ 6,937
Items Held in Reserve for Future Use		
Disaster assistance materials and supplies	7,986	7,120
Birth control supplies	20,566	9,970
Total	$ 35,764	$ 24,027

Operating Materials and Supplies are valued at historical cost and considered not held for sale.

NOTE 8. GENERAL PROPERTY, PLANT AND EQUIPMENT, NET

General Property, Plant and Equipment, Net (in thousands)

	Useful Life	Cost	Accumulated Depreciation	Net Book Value
The components of PP&E as of September 30, 2004 are as follows:				
Classes of Fixed Assets				
Equipment	3 to 5 years	$ 56,471	$ (25,732)	$ 30,740
Buildings, Improvements, & Renovations	20 years	53,851	(24,236)	29,588
Land and Land Rights	N/A	4,181	–	4,181
Assets Under Capital Lease		6,872	(1,423)	5,449
Construction in Progress	N/A	570	–	570
Internal Use Software	3 to 5 years	20,328	(8,901)	11,427
Total		**$142,272**	**$ (60,317)**	**$ 81,954**
The components of PP&E as of September 30, 2003 are as follows:				
Classes of Fixed Assets				
Equipment	3 to 5 years	$ 42,171	$ (25,004)	$ 17,167
Buildings, Improvements, & Renovations	20 years	52,292	(21,265)	31,027
Land and Land Rights	N/A	4,181	–	4,181
Assets Under Capital Lease		5,311	(1,117)	4,194
Construction in Progress	N/A	570	–	570
Internal Use Software	3 to 5 years	12,248	(5,054)	7,194
Total		**$116,773**	**$ (52,440)**	**$ 64,333**

USAID PP&E includes assets located in Washington, D.C. offices and overseas field Missions.

Structures and Facilities include USAID owned office buildings and residences at foreign Missions, including the land on which these structures reside. These structures are used and maintained by the field Missions. USAID does not separately report the cost of the building and the land on which the building resides.

Land consists of property owned by USAID in foreign countries. Usually the land is purchased with the intention of constructing an office building at the site.

NOTE 9. LEASES

Leases as of September 30, 2004 and 2003 (in thousands)

Entity as Lessee		
Capital Leases:	**FY 2004**	**FY 2003**
Summary of Assets Under Capital Lease:		
Buildings	$ 6,872	$ 5,311
Accumulated Depreciation	$ 1,423	$ 1,117
Future Payments Due:		
Fiscal Year	**Future Costs**	**Future Costs**
2004	$ –	$ 912
2005	785	426
2006	471	222
2007	431	192
2008	192	–
2009	164	–
After 5 Years	–	–
Net Capital Lease Liability	2,043	1,752
Lease Liabilities Covered by Budgetary Resources	2,043	1,752
Lease Liabilities Not Covered by Budgetary Resources	–	–
The capital lease liability is reported on USAID's Balance Sheet under Other Liabilities.		
Operating Leases:	**FY 2004**	**FY 2003**
Future Payments Due:		
Fiscal Year	**Future Costs**	**Future Costs**
2004	$ –	$ 72,452
2005	76,968	70,968
2006	32,327	68,755
2007	28,292	68,022
2008	24,970	67,496
2009	18,889	–
After 5 Years	21,574	344,031
Total Future Lease Payments	$ 203,021	$ 691,724

The lease of the Ronald Reagan Building in Washington D.C., USAID's headquarters is scheduled to expire September 2005. Future lease payments beyond September 2005 were not available at the time of this reporting and are not included. This building is leased by the General Services Administration (GSA). USAID is charged rent intended to approximate commercial rental rates. Lease payments for FY 2004 and 2003 amounted to $39 million and $36 million respectively.

NOTE 10. ACCOUNTS PAYABLE

The Accounts Payable covered by budgetary resources as of September 30, 2004 and 2003 consisted of the following:

Accounts Payable Covered by Budgetary Resources (in thousands)

	FY 2004	FY 2003
Intragovernmental		
Accounts Payable	$ 29,523	$ 27,299
Disbursements in Transit	–	–
Total Intragovernmental	29,523	27,299
Accounts Payable	1,951,468	1,842,778
Disbursements in Transit	9,010	–
	1,960,478	1,842,778
Total Accounts Payable	$ 1,990,001	$ 1,870,077

Intragovernmental Accounts Payable are those payable to other federal agencies and consist mainly of unliquidated obligation balances related to interagency agreements between USAID and other federal agencies.

All other Accounts Payable represent liabilities to other non-federal entities.

NOTE 11. DEBT

USAID Intragovernmental debt as of September 30, 2004 and 2003 consisted of the following borrowings from Treasury for post-1991 loan programs, which is classified as other debt:

Intragovernmental Debt as of September 30, 2004 and 2003 (in thousands)

	FY 2003 Beginning Balance	Net Borrowing	FY 2003 Ending Balance	Net Borrowing	FY 2004 Ending Balance
Urban & Environmental	$ –	$ –	$ –	$ –	$ –
Direct Loan	15,560	62,421	77,981	33,100	111,081
MSED	1,184	–	1,184	(1,184)	–
Total Debt	$ 16,744	$ 62,421	$ 79,165	$ 31,916	$ 111,081

Pursuant to the Credit Reform Act of 1990, agencies with credit programs have permanent indefinite authority to borrow funds from the Treasury. These funds are used to disburse new direct loans to the public and, in certain situations, to cover credit reform program costs. Liquidating (pre-1992) accounts have permanent indefinite borrowing authority to be used to cover program costs when they exceed account resources. UE Program debt includes amounts borrowed before the effective date of the Credit Reform Act of 1990.

The above disclosed debt is principal payable to Treasury, which represents financing account borrowings from the Treasury under the Credit Reform Act. In addition, there is net liquidating account equity in the amount of $6.0 billion, which under the Credit Reform Act is required to be recorded as Due to Treasury. Both of these accounts are used exclusively for credit reform activity. All debt shown is intragovernmental debt.

NOTE 12. OTHER LIABILITIES

As of September 30, 2004 and 2003 Other Liabilities consisted of the following:

Other Liabilities as of September 30, 2004 and 2003 (in thousands)

	FY 2004	FY 2003
Intragovernmental		
Unfunded FECA Liability	$ 9,529	$ 6,417
Credit Program Undisbursed Loans	207,095	-
Other	203,950	8,426
Total Intragovernmental	420,574	14,843
Accrued Funded Payroll/Benefits	11,357	6,329
Deferred Credit	7,405	4,305
Liability for Deposit Funds and Suspense Accounts – Non-Entity	19,148	9,176
Foreign Currency Trust Fund	256,871	240,222
Trust Fund Balances	26,459	23,106
Unfunded Leave	29,891	28,714
Capital Lease Liability	2,589	1,981
Other	29	197,424
	$ 353,750	$ 511,257
Total Other Liabilities	**$ 774,324**	**$ 526,100**

All liabilities are current. Intragovernmental Liabilities represent amounts due to other federal agencies. All remaining Other Liabilities are liabilities to non-federal entities.

The desparity between FY 2004 and FY 2003 other intragovernmental liability and those with the public is due to Federal and NonFederal misclassifications in last years financial statements.

NOTE 13. ACCRUED UNFUNDED ANNUAL LEAVE AND SEPARATION PAY

Accrued unfunded benefits for annual leave and separation pay as of September 30, 2004 and 2003 are:

Accrued Unfunded Benefits (in thousands)

	FY 2004	FY 2003
Liabilities Not Covered by Budgetary Resources		
Accrued Annual Leave	$ 29,882	$ 28,409
FSN Separation Pay Liability	9	305
Total Accrued Unfunded Annual Leave and Separation Pay	**$ 29,891**	**$ 28,714**

NOTE 14. ACCRUED UNFUNDED WORKERS' COMPENSATION BENEFITS

The provision for workers' compensation benefits payable, as of September 30, 2004 and 2003 are as follows:

Accrued Unfunded Workers' Compensation Benefits (in thousands)

	FY 2004	FY 2003
Liabilities Not Covered by Budgetary Resources		
Accrued Unfunded Workers' Compensation	$ 6,985	$ 6,417
Future Workers' Compensation Benefits	24,523	27,400
Total Accrued Unfunded Workers' Compensation Benefits	$ 31,508	$ 33,817

The Federal Employees Compensation Act (FECA) program is administered by the U.S. Department of Labor (DOL) and provides income and medical cost protection to covered Federal civilian employees who have been injured on the job or have incurred a work-related occupational disease. Compensation is given to beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. DOL initially pays valid FECA claims for all Federal government agencies and seeks reimbursement two fiscal years later from the Federal agencies employing the claimants.

USAID's total FECA liability is $31.5 million as of September 30, 2004 and comprises of unpaid FECA billings for $7.0 million and estimated future FECA costs of $24.5 million.

For FY 2003, USAID's total FECA liability was $33.8 million and comprised of unpaid FECA billings for $6.4 million and estimated future FECA costs of $27.4 million.

Estimated future FECA costs are determined by the Department of Labor. This liability is determined using a paid losses extrapolation method calculated over a 37 year period. This method utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. These annual benefit payments have been discounted to present value. The interest rate assumptions used for discounting were 4.883% in year 1 and 5.235% in Year 2 and thereafter.

The decrease of $2.9 million for Future Workers' Compensation Benefits is shown as a financing source yet to be provided on the Statement of Financing.

NOTE 15. COMMITMENTS AND CONTINGENCIES

USAID is involved in certain claims, suits, and complaints that have been filed or are pending. These matters are in the ordinary course of the Agency's operations and are not expected to have a material adverse effect on the Agency's financial operations.

As disclosed in FY 2003, USAID continues to be involved in a group of cases which dispute the appropriate indirect cost rates to be charged where contract rates do not match Negotiated Indirect Cost Rate Agreement (NICRA) rates, however, the likelihood of an unfavorable outcome to USAID on this case has changed from reasonably possible to remote. The status of all remaining litigation cases are at a remote designation.

NOTE 16. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Liabilities not covered by budgetary resources as of September 30, 2004 and 2003 are as follows:

Liabilities Not Covered by Budgetary Resources (in thousands)

	FY 2004	FY 2003
Contingent Liabilities for Loan Guarantees	$ 242,171	$ 311,383
Accrued Unfunded Annual Leave and Separation Pay	29,891	28,714
Accrued Unfunded Workers Compensation Benefits	31,508	33,817
Total Liabilities not covered by Budgetary Resources	303,571	373,914
Total Liabilities covered by Budgetary Resources	9,670,220	8,957,967
Total Liabilities	**$ 9,973,791**	**$ 9,331,882**

All liabilities not covered by Budgetary Resources are non-federal liabilities.

NOTE 17. STATEMENT OF NET COST

The Consolidated Statement of Net Cost reports the Agency's gross costs less earned revenues to arrive at net cost of operations by strategic goals, as of September 30, 2004. To the extent practicable, presentation of program results by strategic goals is based on the Joint FY 2004-2009 State/USAID Strategic Plan. For comparative purposes, prior year data have been recast consistent with the 2004 presentation.

The Schedule of Cost by Responsibility Segment categorizes costs and revenues by strategic and performance goals and responsibility segments. A responsibility segment is the component that carries out a mission or major line of activity, and whose managers report directly to top management. The geographic and technical bureaus of USAID (below) meet the criteria of a responsibility segment. These bureaus directly support the Agency goals while the remaining bureaus and offices support the operations of these bureaus. To report the full cost of program outputs, the cost of support bureaus and offices are allocated to the outputs of the geographic and technical bureaus. Intra-agency eliminations are allocated to goals to reflect total goals costs.

FY 2004 Schedule of Cost Responsibility Segments

Geographic Bureaus

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

Technical Bureaus

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

U.S. Agency for International Development
SCHEDULE OF COSTS BY RESPONSIBILITY SEGMENT
For the year ended September 30, 2004
(in thousands)

Goal	Africa	Asia & Near East	Europe & Eurasia	Latin America & Caribbean	Global Health	DCHA	EGAT	Intra-Agency Eliminations	2004 Total
Regional Stability									
Close, strong, and effective U.S. ties with allies									
Total Costs	$ 77	$ 1,039	$ 16,734	$ 2,064	$ –	$ 55,112	$ 215	$(158)	$ 75,083
Less Earned Revenues	–	(4)	(62)	–	–	(433)	(3)	64	(438)
Net Program Costs	77	1,035	16,672	2,064	–	54,679	212	(94)	74,645
Existing and emergent regional conflicts are contained or resolved									
Total Costs	32,965	496,507	26,545	11,577	–	12,811	–	(1,218)	579,187
Less Earned Revenues	(80)	(556)	(84)	(118)	–	(117)	–	122	(833)
Net Program Costs	32,885	495,951	26,461	11,459	–	12,694	–	(1,096)	578,354
Counterterrorism									
Coordinated international prevention and response to terrorism									
Total Costs	–	16,325	–	–	–	–	–	(34)	16,291
Less Earned Revenues	–	–	–	–	–	–	–	–	–
Net Program Costs	–	16,325	–	–	–	–	–	(34)	16,291
Stable political and economic conditions									
Total Costs	–	113,466	–	–	–	–	–	(238)	113,228
Less Earned Revenues	–	(62)	–	–	–	–	–	8	(54)
Net Program Costs	–	113,404	–	–	–	–	–	(230)	113,174
International Crime and Drugs									
International trafficking in drugs, persons, and other illicit goods									
Total Costs	–	–	332	76,914	–	–	–	(162)	77,084
Less Earned Revenues	–	–	(2)	(336)	–	–	–	43	(295)
Net Program Costs	–	–	330	76,578	–	–	–	(119)	76,789
Democracy and Human Rights									
Develop transparent and accountable democratic institutions									
Total Costs	106,217	375,862	278,387	122,738	–	361,408	–	(2,612)	1,242,000
Less Earned Revenues	(215)	(505)	(313)	(439)	–	(2,567)	–	517	(3,522)
Net Program Costs	106,002	375,357	278,074	122,299	–	358,841	–	(2,095)	1,238,478
Universal standards protect human rights									
Total Costs	563	9,649	60	845	–	6,168	21,643	(82)	38,847
Less Earned Revenues	–	(31)	–	–	–	(68)	(207)	39	(267)
Net Program Costs	563	9,618	60	845	–	6,100	21,436	(43)	38,580

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U.S. Agency for International Development
SCHEDULE OF COSTS BY RESPONSIBILITY SEGMENT *(continued)*
For the year ended September 30, 2004
(in thousands)

Goal	Africa	Asia & Near East	Europe & Eurasia	Latin America & Caribbean	Global Health	DCHA	EGAT	Intra-Agency Eliminations	2004 Total
Economic Prosperity and Security									
Enhanced food security and agricultural development									
Total Costs	160,415	30,168	11,465	57,736	–	–	114,050	(784)	373,050
Less Earned Revenues	(383)	(113)	7	(472)	–	–	(1,005)	251	(1,715)
Net Program Costs	160,032	30,055	11,472	57,264	–	–	113,045	(533)	371,335
Increased trade and investment									
Total Costs	84,422	113,765	33,675	45,681	–	–	535	(583)	277,495
Less Earned Revenues	(281)	(1,063)	–	(202)	–	–	(4)	198	(1,352)
Net Program Costs	84,141	112,702	33,675	45,479	–	–	531	(385)	276,143
Institutions, laws, and policies foster private sector led growth									
Total Costs	76,695	2,033,690	270,627	60,715	–	11,308	135,971	(5,433)	2,583,573
Less Earned Revenues	(399)	(5,001)	1,045	(486)	–	(88)	(7,247)	1,559	(10,617)
Net Program Costs	76,296	2,028,689	271,672	60,229	–	11,220	128,724	(3,874)	2,572,956
Secure and stable financial and energy markets									
Total Costs	–	76,237	60,839	57	–	–	17,935	(325)	154,743
Less Earned Revenues	–	(214)	(279)	(2)	–	–	(256)	96	(655)
Net Program Costs	–	76,023	60,560	55	–	–	17,679	(229)	154,088
Social and Environmental Issues									
Broader access to quality education with an emphasis on primary school completion									
Total Costs	167,154	282,509	7,542	70,692	–	–	38,459	(1,188)	565,168
Less Earned Revenues	(737)	(837)	7	(532)	–	–	(408)	321	(2,186)
Net Program Costs	166,417	281,672	7,549	70,160	–	–	38,051	(867)	562,982
Improved global health									
Total Costs	983,203	563,369	149,544	355,830	1,157,586	–	–	(6,735)	3,202,797
Less Earned Revenues	(8,174)	(4,536)	(957)	(3,592)	(7,554)	–	–	3,177	(21,636)
Net Program Costs	975,029	558,833	148,587	352,238	1,150,032	–	–	(3,558)	3,181,161
Partnerships, initiatives, and implemented international treaties									
Total Costs	47,614	253,154	71,993	93,757	–	–	145,434	(1,284)	610,668
Less Earned Revenues	(29)	(899)	(416)	(724)	–	–	(47,269)	6,317	(43,020)
Net Program Costs	47,585	252,255	71,577	93,033	–	–	98,165	5,033	567,648
Humanitarian Response									
Effective protection, assistance, and durable solutions for refugees									
Total Costs	8,400	6,948	31,425	18,144	–	405,008	–	(986)	468,939
Less Earned Revenues	–	66	(66)	(190)	–	(3,200)	–	434	(2,956)
Net Program Costs	8,400	7,014	31,359	17,954	–	401,808	–	(552)	465,983
Improved capacity of host countries to reduce vulnerabilities to disasters									
Total Costs	8,671	(2,364)	51,461	78,690	–	13,054	98,862	(521)	247,853
Less Earned Revenues	(44)	89	(368)	27	–	(149)	(72,009)	9,277	(63,177)
Net Program Costs	8,627	(2,275)	51,093	78,717	–	12,905	26,853	8,756	184,676

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U.S. Agency for International Development
SCHEDULE OF COSTS BY RESPONSIBILITY SEGMENT *(continued)*
For the year ended September 30, 2004
(in thousands)

Goal	Africa	Asia & Near East	Europe & Eurasia	Latin America & Caribbean	Global Health	DCHA	EGAT	Intra-Agency Eliminations	2004 Total
Management and Organizational Excellence									
A high performing, well–trained, and diverse workforce									
Total Costs	41,202	–	3,069	–	–	–	–	(93)	44,178
Less Earned Revenues	(475)	–	(6)	–	–	–	–	62	(419)
Net Program Costs	40,727	–	3,063	–	–	–	–	(31)	43,759
Customer–oriented, innovative delivery of administrative and information services									
Total Costs	708	–	–	–	–	–	–	(1)	707
Less Earned Revenues	(6)	–	–	–	–	–	–	1	(5)
Net Program Costs	702	–	–	–	–	–	–	–	702
Modernized, secure, and high quality information technology management									
Total Costs	1,357	–	–	–	–	–	–	(3)	1,354
Less Earned Revenues	–	–	–	–	–	–	–	–	–
Net Program Costs	1,357	–	–	–	–	–	–	(3)	1,354
Secure, safe, and functional facilities serving domestic and overseas staff									
Total Costs	–	–	171	–	–	–	–	–	171
Less Earned Revenues	–	–	–	–	–	–	–	–	–
Net Program Costs	–	–	171	–	–	–	–	–	171
Public Diplomacy and Political Affairs									
American understanding and support for U.S. foreign policy									
Total Costs	–	–	–	–	–	34,561	–	(72)	34,489
Less Earned Revenues	–	–	–	–	–	(202)	–	26	(176)
Net Program Costs	–	–	–	–	–	34,359	–	(46)	34,313
Net Costs of Operations	$1,708,840	$4,356,658	$1,012,375	$988,374	$1,150,032	$892,606	$444,696	$ –	$10,553,582

NOTE 18. TOTAL AND INTRAGOVERNMENTAL COST AND EARNED REVENUE BY BUDGET FUNCTIONAL CLASSIFICATION

Total Cost and Earned Revenue by Budget Functional Classification as of September 30, 2004 are as follows:

Function Classification	Gross Cost	Earned Revenue	Net Cost
International Development and Humanitarian Assistance- 151	$ 7,977,485	$ (153,316)	$ 7,824,170
International Security Assistance- 152	2,679,334	(3)	2,679,331
Conduct of Foreign Affairs- 153	43,859	–	43,859
Federal Employee Retirement and Disability- 602	6,222	–	6,222
Total	$ 10,706,901	$ (153,319)	$ 10,553,582

Total Cost and Earned Revenue by Budget Functional Classification as of September 30, 2003 are as follows:

Function Classification	Gross Cost	Earned Revenue	Net Cost
International Development and Humanitarian Assistance- 151	$ 6,700,489	$ (188,023)	$ 6,512,466
International Security Assistance- 152	3,434,912	–	3,434,912
Conduct of Foreign Affairs- 153	45,200	–	45,200
Federal Employee Retirement and Disability- 602	987	–	987
Total	$ 10,181,588	$ (188,023)	$ 9,993,565

Intragovernmental Cost and Earned Revenue by Budget Functional Classification, as of September 30, 2004 are as follows:

Function Classification	Gross Cost	Earned Revenue	Net Cost
International Development and Humanitarian Assistance- 151	$ 532,069	$ 131,168	$ 400,901
International Security Assistance- 152	41,493	–	41,493
Conduct of Foreign Affairs- 153	43,859	–	43,859
Federal Employee Retirement and Disability- 602	–	–	–
Total	$ 617,421	$ (131,168)	$ 486,253

Intragovernmental Cost and Earned Revenue by Budget Functional Classification, as of September 30, 2003 are as follows:

Function Classification	Gross Cost	Earned Revenue	Net Cost
International Development and Humanitarian Assistance- 151	$ 496,708	$ (17,452)	$ 479,256
International Security Assistance- 152	28,972	–	28,972
Conduct of Foreign Affairs- 153	45,200	–	45,200
Federal Employee Retirement and Disability- 602	–	–	–
Total	$ 570,880	$ (17,452)	$ 553,428

NOTE 19. PRIOR PERIOD ADJUSTMENT

USAID recorded no prior period adjustments during FY 2004. In FY 2003, a prior adjustment was made in the amount of approximately $1.7 million to adjust the allowance for subsidy for prior year amortization of the reestimate interest expense in the Direct Loan Financing fund (Enterprise for the Americas Initiative Debt Restructuring Financing).

NOTE 20. STATEMENT OF BUDGETARY RESOURCES

A. Apportionment Categories of Obligations Incurred:

	FY 2004	FY 2003
Category A, Direct	$ 39,926	$ 1,371,774
Category B, Direct	11,316,180	8,534,809
Category A, Reimbursable	27,475	10,065
Category B, Reimbursable	24,854	171,039
Total	$ 11,408,435	$10,087,687

B. Borrowing Authority, End of Period and Terms of Borrowing Authority Used:

For credit financing activities, borrowing authority for FY 2004 was 31.9 million. For FY 2003 borrowing authority was $62.9 million.

Borrowing Authority is indefinite and authorized under the Credit Reform Act of 1990 (P.L. 101-508), and is used to finance obligations during the current year, as needed.

C. Adjustments to Beginning Balance of Budgetary Resources:

There were no differences for FY 2004 between prior year and current year beginning balances.

D. Permanent Indefinite Appropriations:

USAID has permanent indefinite appropriations relating to specific Credit Reform Program and Liquidating appropriations. USAID is authorized permanent indefinite authority for Credit Reform Program appropriations for subsidy reestimates, and Credit Reform Act of 1990.

E. Legal Arrangements Affecting the Use of Unobligated Balances:

Pursuant to Section 511 of PL 107-115 funds shall remain available until expended if such funds are initially obligated before the expiration of their periods of availability. Any subsequent recoveries (deobligations) of these funds become unobligated balances that are available for reporogramming by USAID (subject to OMB approval through the apportionment process).

F. Appropriations Received:

The $73.9 million difference between appropriations received on the Statement of Changes in Net Position and the Statement of Budgetary Resources is due to appropriated funds received for a credit program liquidating account which was recorded in budgetary accounts and not required to be recorded in traditional accounts. In addition, the difference also includes Trust Fund re-appropriations which are shown as appropriations received on the Statement of Changes in Net Position.

NOTE 21. STATEMENT OF FINANCING - OTHER

Explanation of the Relationship Between Liabilities Not Covered by Budgetary Resources on the Balance Sheet and the Change in Components Requiring or Generating Resources in Future Periods

Contingent liabilities for Loan Guarantees on the Balance Sheet represent cumulative balances, of which $209 million represent the Credit Subsidy expense reestimates requiring resources in future periods. Current period changes of $1.2 million represents the current period increase in the Accrued Unfunded Annual Leave Separation Pay liability, and is shown on the Statement of Financing as a change in components requiring resources in future periods. Increase in exchange revenue from the Public includes current-period increases in Accrued Unfunded Workers Compensation Benefits with other non-related expenses that require future resources.

Description of Transfers that Appear as a Reconciling Item on the Statement of Financing

Appropriations that are transferred from other Federal Agencies to USAID are not shown on the Statement of Budgetary Resources, but are shown on the Balance Sheet and Statement of Net Costs. Appropriations that are transferred to other agencies are shown on the Statement of Budgetary Resources, but are not shown on the Balance Sheet nor the Statement of Net Costs. Below is a reconciliation of obligations and spending authority from offsetting collections between the Statement of Budgetary Resources and the Statement of Financing.

Explanation of the Relationship Between the Statement of Changes in Net Position and the Statement of Financing

Transfers in/out without reimbursement of $1.8 million is included in upward/downward reestimates of credit subsidiary expense on the Statement of Financing.

Reconciliation of Obligations and Spending Authority from Offsetting Collections between the Statementof Budgetary Resources and the Statement of Financing (in thousands)

Obligations Incurred, Statement of Budgetary Resources		$11,408,435
Less: Transfers to Other Agencies		
Nuclear Regulatory Commission	$(334,567)	–
Others	(2,563)	(337,129)
Add: Transfers from Other Agencies		
Dept of State	447,345	–
Dept of Agriculture	950,192	–
Executive Office of the President	146,020	1,543,556
Obligations Incurred, Statement of Financing		12,614,862
Spending Authority from Offsetting Collections Per Statement of Budgetary Resources		1,274,282
Less: Transfers to Other Agencies		
Dept of State	(18,956)	–
U.S. Treasury Dept	(355)	(19,310)
Add: Allocations from Other Agencies		
Dept of State	316	–
Dept of Agriculture	186,517	–
Executive Office of the President	4,808	191,641
Spending Authority from Offsetting Collections Per Statement of Financing		**$ 1,446,613**

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Required Supplementary Information

U.S. Agency for International Development
REQUIRED SUPPLEMENTARY INFORMATION: INTRAGOVERNMENTAL AMOUNTS
as of September 30, 2004
(in thousands)

Intragovernmental assets:

Agency	Fund Balance with Treasury	Accounts Receivable, Net	Advances and Prepayments	Totals
Treasury	$ 15,854,926	$ –	$ –	$ 15,854,926
Dept of Agriculture	–	804,491	2,601	807,092
Dept of Commerce	–	–	531	531
Dept of State	–	–	19,911	19,911
Other	–	226,677	7,876	234,554
Total	$ 15,854,926	$ 1,031,168	$ 30,920	$ 16,917,014

Intragovernmental liabilities:

Agency	Due to Treasury	Accounts Payable	Debt	Other	Totals
Treasury	$ 6,033,925	$ 5,440	$ 111,081	$ 37,549	$ 6,187,996
GSA	–	12,059	–	–	12,059
Dept of Agriculture	–	3,369	–	–	3,369
Dept of Labor	–	2,455	–	7,017	9,472
Dept of Health and Human Services	–	6,003	–	–	6,003
Other	–	197	–	376,008	376,205
Total	$ 6,033,925	$ 29,523	$ 111,081	$ 420,574	$ 6,595,103

Intragovernmental earned revenues and related costs:

USAID's intragovernmental earned revenues are not greater than $500 million. As such, intragovernmental earned revenues and related costs by trading partner are not required to be reported.

U.S. Agency for International Development
REQUIRED SUPPLEMENTARY INFORMATION: SCHEDULE OF BUDGETARY RESOURCES
For the periods ended September 30, 2004 and 2003

	Operating	Program							Credit-Financing	Other	Alocations to Other Aagencies	Consolidated Total
	1000	**1010**	**1021**	**1035**	**1037**	**1093**	**1095**	**1096**				
Budget Authority	$670,162	$309,821	$1,325,050	$512,900	$2,842,200	$430,988	$1,824,481	$2,336,233	$ –	$ 581,715	$238,828	$11,072,378
Unobligated Balances - Beginning of Period	26,071	92,806	202,891	40,863	1,071,659	195,044	144,389	726	981,619	421,762	189,268	3,367,098
Spending Authority from Offsetting Collections	29,134	5	3,142	1,427	3	–	18,054	–	218,325	856,732	2,595	1,129,417
Recoveries of Prior-Year Obligations	16,317	14,803	23,355	14,114	15,355	17,322	12,963	571	3,955	9,395	16,715	144,865
Temporarily Not Available Pursuant to Public Law	–	–	–	–	–	–	–	–	–	–	–	–
Permanently Not Available	(3,768)	(2,729)	(8,213)	(1,507)	(13,544)	(3,663)	(10,826)	–	(1,184)	(1,035,168)	(74)	(1,080,676)
Total Budgetary Resources	**737,916**	**414,706**	**1,546,225**	**567,797**	**3,915,673**	**639,691**	**1,989,061**	**2,337,530**	**1,202,715**	**834,436**	**447,332**	**14,633,082**
Status of Budgetary Resources:												
Obligations Incurred	667,014	319,265	1,490,504	366,628	2,928,428	494,587	1,750,151	2,203,028	234,102	617,598	337,130	11,408,435
Unobligated Balances - Available	69,246	93,754	42,773	200,729	983,159	144,672	238,914	134,502	968,613	216,186	100,194	3,192,742
Unobligated Balances - Unavailable	1,656	1,687	12,948	440	4,086	432	(4)	–	–	652	10,008	31,905
Total, Status of Budgetary Resources	**737,916**	**414,706**	**1,546,225**	**567,797**	**3,915,673**	**639,691**	**1,989,061**	**2,337,530**	**1,202,715**	**834,436**	**447,332**	**14,633,082**
Relationship of Obligations to Outlays:												
Obligated Balance, Net, Beginning of Period	160,842	527,856	2,506,374	409,634	2,933,916	565,322	1,996,750	90,230	1,597	83,600	1,298,721	10,574,842
Obligated Balance, Transferred, Net	–	–	–	–	–	–	–	–	–	–	–	–
Obligated Balance, Net, End of Period	166,373	452,415	2,630,507	379,666	3,105,784	544,004	2,073,456	1,969,418	11,031	160,905	1,267,439	12,760,997
Outlays:												
Disbursements	645,384	379,903	1,343,018	382,482	2,741,205	498,583	1,660,482	323,268	220,712	530,918	216,834	8,942,788
Collections	(27,460)	(5)	(3,142)	(1,427)	(3)	–	(18,054)	–	(218,325)	(854,050)	(2,595)	(1,125,061)
Less: Offsetting Receipts	–	–	–	–	–	–	–	–	–	–	–	–
Net Outlays	$617,924	$379,899	$1,339,876	$381,055	$2,741,202	$498,583	$1,642,428	$ 323,268	$ 2,387	$(323,131)	$ 214,240	$ 7,817,727

MAJOR FUNDS

Program Fund

- 1010 Special Assistance Initiatives
- 1021 Development Assistance
- 1035 International Disaster Assistance
- 1037 Economic Support Fund
- 1093 Assistance for the N.I.S. Of The Former Soviet Union
- 1095 Child Survival and Disease Programs Funds
- 1096 Latin American/Caribbean Disaster Recovery

Operating Fund

- 1000 Operating Expenses of USAID

Credit-Financing Funds

- 4119 Israel Guarantee Financing Fund
- 4137 Direct Loan Financing Fund
- 4266 DCA Financing Fund
- 4342 MSED Direct Loan Financing Fund
- 4343 MSED Guarantee Financing Fund
- 4344 UE Financing Fund
- 4345 Ukraine Financing Fund

OTHER FUNDS

Operating Funds

- 1007 Operating Expenses of USAID Inspector General
- 1036 Foreign Service Retirement and Disability Fund

Program Funds

- 1012 Sahel Development Program
- 1014 Africa Development Assistance
- 1023 Food and Nutrition Development Assistance
- 1024 Population and Planning & Health Dev. Asst.
- 1025 Education and Human Resources, Dev. Asst.
- 1027 Transition Initiatives
- 1028 Global Fund to Fight HIV / AIDS
- 1038 Central American Reconciliation Assistance
- 1040 Sub-Saharan Africa Disaster Assistance
- 1500 Demobilization and Transition Fund

Trust Funds

- 8342 Foreign Natl. Employees Separation Liability Fund
- 8502 Tech. Assist. - U.S. Dollars Advance from Foreign
- 8824 Gifts and Donations

OTHER FUNDS *(continued)*

Credit Program Funds

- 0400 MSED Program Fund
- 0401 UE Program Fund
- 0402 Ukraine Program Fund
- 1264 DCA Program Fund
- 4103 Economic Assistance Loans - Liquidating Fund
- 4340 UE Guarantee Liquidating Fund
- 4341 MSED Direct Loan Liquidating Fund
- 5318 Israel Admin Expense Fund

Revolving Funds

- 4175 Property Management Fund
- 4513 Working Capital Fund
- 4590 Acquisition of Property, Revolving Fund

ALLOCATIONS TO OTHER AGENCIES

- 1000 Operating Expenses of USAID
- 1010 Special Assistance Initiatives
- 1014 Africa Development Assistance
- 1021 Development Assistance
- 1027 Transition Initiatives
- 1032 Peacekeeping Operations
- 1035 International Disaster Assistance
- 1037 Economic Support Fund
- 1093 Assistance for the N.I.S. Of The Former Soviet Union
- 1095 Child Survival and Disease Programs Funds
- 1500 Demobilization and Transition Fund

U.S. Agency for International Development
CONSOLIDATING BALANCE SHEET
As of September 30, 2004
(in thousands)

	Credit Program Funds	Program Funds	Operating Funds	Revolving Funds	Trust Funds	Other Funds	Eliminating Entries	Total
ASSETS								
Intragovernmental								
Fund Balance with Treasury	$ 1,227,679	$ 14,163,133	$ 368,349	$ 1,034	$ 33,255	$ 61,476	–	$ 15,854,926
Accounts Receivable	300,147	–	804,700	–	–	–	(73,679)	1,031,168
Other Assets	–	30,554	366	–	–	–	–	30,920
Total Intragovernmental	1,527,826	14,193,687	1,173,415	1,034	33,255	61,476	(73,679)	16,917,014
Cash and Other Monetary Assets	50	–	257,151	–	–	–		257,201
Accounts Receivable, Net	46,927	17,330	1,014	0	–	4,529	–	69,800
Loans Receivable, Net	6,108,252	–	–	–	–	–	–	6,108,252
Inventory and Related Property	–	28,551	7,213	–	–	–	–	35,764
General Property, Plant, and Equipment, Net	–	935	81,019	–	–	–	–	81,954
Advances and Prepayments	160	504,190	51,655	2,300	1,380	1	–	559,686
Total Assets	7,683,215	14,744,693	1,571,467	3,334	34,635	66,006	(73,679)	24,029,671
LIABILITIES								
Intragovernmental								
Accounts Payable	19,098	40,898	878	–	–	42,328	(73,679)	29,523
Debt	111,081	–	–	–	–	–	–	111,081
Due to U.S. Treasury	6,033,925	–	–	–	–	–	–	6,033,925
Other Liabilities	407,959	–	8,086	–	–	4,529	–	420,574
Total Intragovernmental	6,572,063	40,898	8,964	–	–	46,857	(73,679)	6,595,103
Accounts Payable	45,708	1,460,177	444,827	1,590	8,176	–	–	1,960,478
Loan Guarantee Liability	1,039,937	–	–	–	–	–	–	1,039,937
Federal Employees and Veteran's Benefits	–	–	24,523	–	–	–	–	24,523
Other Liabilities	7,810	–	300,324	–	26,468	19,148	–	353,750
Total Liabilities	7,665,518	1,501,075	778,638	1,590	34,644	66,005	(73,679)	9,973,791
Commitments and Contingencies	–	–	–	–	–	–	–	–
NET POSITION								
Unexpended Appropriations	42,557	13,209,745	143,085	–	–	–	–	13,395,387
Cumulative Results of Operations	(24,859)	33,873	649,745	1,743	(9)	–	–	660,493
Total Net Position	17,698	13,243,618	792,830	1,743	(9)	–	–	14,055,880
Total Liabilities and Net Position	**$ 7,683,216**	**$ 14,744,693**	**$ 1,571,468**	**$ 3,333**	**$ 34,635**	**$ 66,005**	**$ (73,679)**	**$ 24,029,671**

U.S. Agency for International Development
CONSOLIDATING STATEMENT OF NET COSTS
For the Year ended September 30, 2004
(in thousands)

Goal	Credit	Operating	Other	Program	Revolving	Trust	IntraAgency Elimination	Total
Regional Stability								
Close, strong, and effective U.S. ties with allies								
Intragovernmental	$ –	$ 1,904	$ –	$ 700	$ 1	$ –	$ (6)	$ 2,599
With the Public	–	10,435	–	62,069	24	108	(152)	72,484
Total Costs	–	12,339	–	62,769	25	108	(158)	75,083
Less Earned Revenues	–	(183)	–	(304)	(15)	–	64	(438)
Net Program Costs	–	12,156	–	62,465	10	108	(94)	74,645
Existing and emergent regional conflicts are contained or resolved								
Intragovernmental	–	2,998	–	7,584	2	–	(22)	10,562
With the Public	–	16,432	–	553,180	38	171	(1,196)	568,625
Total Costs	–	19,430	–	560,764	40	171	(1,218)	579,187
Less Earned Revenues	–	(287)	–	(645)	(23)	–	122	(833)
Net Program Costs	–	19,143	–	560,119	17	171	(1,096)	578,354
Counterterrorism								
Coordinated International prevention and response to terrorism								
Intragovernmental	–	–	–	16,325	–	–	(34)	16,291
With the Public	–	–	–	–	–	–	–	–
Total Costs	–	–	–	16,325	–	–	(34)	16,291
Less Earned Revenues	–	–	–	–	–	–	–	–
Net Program Costs	–	–	–	16,325	–	–	(34)	16,291
Stable political and economic conditions								
Intragovernmental	–	197	–	117	–	–	(1)	313
With the Public	–	1,080	–	112,059	2	11	(237)	112,915
Total Costs	–	1,277	–	112,176	2	11	(238)	113,228
Less Earned Revenues	–	(19)	–	(41)	(2)	–	8	(54)
Net Program Costs	–	1,258	–	112,135	–	11	(230)	113,174
International Crime and Drugs								
International trafficking in drugs, persons, and other illicit goods								
Intragovernmental	–	1,689	–	2,702	1	–	(9)	4,383
With the Public	–	9,261	–	63,476	21	96	(153)	72,701
Total Costs	–	10,950	–	66,178	22	96	(162)	77,084
Less Earned Revenues	–	(162)	–	(163)	(13)	–	43	(295)
Net Program Costs	–	10,788	–	66,015	9	96	(119)	76,789

(continued on next page)

U.S. Agency for International Development
CONSOLIDATING STATEMENT OF NET COSTS *(continued)*
(in thousands)

Goal	Credit	Operating	Other	Program	Revolving	Trust	IntraAgency Elimination	Total
Democracy and Human Rights								
Develop transparent and accountable democratic institutions								
Intragovernmental	–	17,398	–	559	9	–	(38)	17,928
With the Public	–	95,372	–	1,130,065	219	990	(2,574)	1,224,072
Total Costs	–	112,770	–	1,130,624	228	990	(2,612)	1,242,000
Less Earned Revenues	–	(1,669)	–	(2,237)	(133)	–	517	(3,522)
Net Program Costs	–	111,101	–	1,128,387	95	990	(2,095)	1,238,478
Universal standards protect human rights								
Intragovernmental	–	2,030	–	255	1	–	(5)	2,281
With the Public	–	11,130	–	25,371	26	116	(77)	36,566
Total Costs	–	13,160	–	25,626	27	116	(82)	38,847
Less Earned Revenues	–	(195)	–	(95)	(16)	–	39	(267)
Net Program Costs	–	12,965	–	25,531	11	116	(43)	38,580
Economic Prosperity and Security								
Enhanced food security and agricultural development								
Intragovernmental	–	12,054	–	19,572	6	–	(66)	31,566
With the Public	–	66,077	–	275,287	152	686	(718)	341,484
Total Costs	–	78,131	–	294,859	158	686	(784)	373,050
Less Earned Revenues	–	(1,156)	–	(718)	(92)	–	251	(1,715)
Net Program Costs	–	76,975	–	294,141	66	686	(533)	371,335
Increased trade and investment								
Intragovernmental	–	8,438	–	15,933	4	–	(51)	24,324
With the Public	–	46,254	–	206,863	106	480	(532)	253,171
Total Costs	–	54,692	–	222,796	110	480	(583)	277,495
Less Earned Revenues	–	(809)	–	(676)	(65)	–	198	(1,352)
Net Program Costs	–	53,883	–	222,120	45	480	(385)	276,143
Institutions, laws, and policies foster private sector led growth								
Intragovernmental	6,305	21,625	–	24,174	11	–	(109)	52,006
With the Public	652	118,543	–	2,416,193	272	1,231	(5,324)	2,531,567
Total Costs	6,957	140,168	–	2,440,367	283	1,231	(5,433)	2,583,573
Less Earned Revenues	(5,067)	(2,074)	–	(4,869)	(166)	–	1,559	(10,617)
Net Program Costs	1,890	138,094	–	2,435,498	117	1,231	(3,874)	2,572,956
Secure and stable financial and energy markets								
Intragovernmental	–	6,347	–	4,272	3	–	(22)	10,600
With the Public	–	34,795	–	109,210	80	361	(303)	144,143
Total Costs	–	41,142	–	113,482	83	361	(325)	154,743
Less Earned Revenues	–	(609)	–	(93)	(49)	–	96	(655)
Net Program Costs	–	40,533	–	113,389	34	361	(229)	154,088

(continued on next page)

U.S. Agency for International Development
CONSOLIDATING STATEMENT OF NET COSTS *(continued)*
(in thousands)

Goal	Credit	Operating	Other	Program	Revolving	Trust	IntraAgency Elimination	Total
Social and Environmental Issues								
Broader access to quality education with an emphasis on primary school completion								
Intragovernmental	–	17,454	–	28,395	9	–	(96)	45,762
With the Public	–	95,681	–	423,604	219	994	(1,092)	519,406
Total Costs	–	113,135	–	451,999	228	994	(1,188)	565,168
Less Earned Revenues	–	(1,674)	–	(699)	(134)	–	321	(2,186)
Net Program Costs	–	111,461	–	451,300	94	994	(867)	562,982
Improved global health								
Intragovernmental	–	152,501	(3)	80,080	77	–	(488)	232,167
With the Public	–	835,981	3	2,130,294	1,918	8,681	(6,247)	2,970,630
Total Costs	–	988,482	–	2,210,374	1,995	8,681	(6,735)	3,202,797
Less Earned Revenues	–	(14,626)	–	(9,018)	(1,169)	–	3,177	(21,636)
Net Program Costs	–	973,856	–	2,201,356	826	8,681	(3,558)	3,181,161
Partnerships, initiatives, and implemented international treaties								
Intragovernmental	42,362	17,808	–	19,121	9	–	(166)	79,134
With the Public	21,529	97,622	–	412,263	224	1,014	(1,118)	531,534
Total Costs	63,891	115,430	–	431,384	233	1,014	(1,284)	610,668
Less Earned Revenues	(46,536)	(1,708)	–	(956)	(137)	–	6,317	(43,020)
Net Program Costs	17,355	113,722	–	430,428	96	1,014	5,033	567,648
Humanitarian Response								
Effective protection, assistance, and durable solutions for refugees								
Intragovernmental	–	14,967	–	55,084	8	–	(147)	69,912
With the Public	–	82,047	–	316,779	188	852	(839)	399,027
Total Costs	–	97,014	–	371,863	196	852	(986)	468,939
Less Earned Revenues	–	(1,435)	–	(1,840)	(115)	–	434	(2,956)
Net Program Costs	–	95,579	–	370,023	81	852	(552)	465,983
Improved capacity of host countries to reduce vulnerabilities to disasters								
Intragovernmental	98,862	3,859	–	1,561	2	–	(219)	104,065
With the Public	–	21,156	–	122,665	49	220	(302)	143,788
Total Costs	98,862	25,015	–	124,226	51	220	(521)	247,853
Less Earned Revenues	(72,008)	(370)	–	(46)	(30)	–	9,277	(63,177)
Net Program Costs	26,854	24,645	–	124,180	21	220	8,756	184,676

(continued on next page)

U.S. Agency for International Development
CONSOLIDATING STATEMENT OF NET COSTS *(continued)*
(in thousands)

Goal	Credit	Operating	Other	Program	Revolving	Trust	IntraAgency Elimination	Total
Management and organizational excellence								
A high performing, well–trained, and diverse workforce								
Intragovernmental	–	3,945	–	1,422	2	–	(11)	5,358
With the Public	–	21,626	–	17,001	50	225	(82)	38,820
Total Costs	–	25,571	–	18,423	52	225	(93)	44,178
Less Earned Revenues	–	(378)	–	(73)	(30)	–	62	(419)
Net Program Costs	–	25,193	–	18,350	22	225	(31)	43,759
Customer–oriented, innovative delivery of administrative and information svs								
Intragovernmental	–	30	–	–	–	–	–	30
With the Public	–	162	–	514	–	2	(1)	677
Total Costs	–	192	–	514	–	2	(1)	707
Less Earned Revenues	–	(3)	–	(3)	–	–	1	(5)
Net Program Costs	–	189	–	511	–	2	–	702
Modernized, secure, and high quality information technology management								
Intragovernmental	–	–	–	–	–	–	–	–
With the Public	–	–	–	1,357	–	–	(3)	1,354
Total Costs	–	–	–	1,357	–	–	(3)	1,354
Less Earned Revenues	–	–	–	–	–	–	–	–
Net Program Costs	–	–	–	1,357	–	–	(3)	1,354
Secure, safe, and functional facilities serving domestic and overseas staff								
Intragovernmental	–	–	–	–	–	–	–	–
With the Public	–	–	–	171	–	–	–	171
Total Costs	–	–	–	171	–	–	–	171
Less Earned Revenues	–	–	–	–	–	–	–	–
Net Program Costs	–	–	–	171	–	–	–	171
Public Diplomacy and Public Affairs								
American understanding and support for U.S. foreign policy								
Intragovernmental	–	152	–	–	–	–	–	152
With the Public	–	833	–	33,566	2	9	(72)	34,338
Total Costs	–	985	–	33,566	2	9	(72)	34,490
Less Earned Revenues	–	(15)	–	(187)	(1)	–	26	(177)
Net Program Costs	–	970	–	33,379	1	9	(46)	34,313
Net Costs of Operations	$ 46,099	$ 1,822,511	$ –	$ 8,667,180	$ 1,545	$ 16,247	$ –	$ 10,553,582

U.S. Agency for International Development
CONSOLIDATING STATEMENT OF NET POSITION
For the Year ended September 30, 2004
(in thousands)

	Credit Program Funds	Program Funds	Operating Funds	Revolving Funds	Trust Funds	Other Funds	Total
Beginning Balances	$ (58,154)	$ 11,616,448	$ 931,022	$ 3,288	$ (251)	$ -	$ 12,492,353
Prior period adjustments	–	–	–	– –	– –		
Beginning Balances, as adjusted	(58,154)	11,616,448	931,022	3,288	(251)	–	12,492,353
Budgetary Financing Sources:							
Appropriations Received	108,114	8,256,500	821,759	–	–	–	9,186,373
Appropriations transferred–in/out	13,386	2,081,554	27,701	–	–	–	2,122,641
Other adjustments (recissions, etc)	(1,372)	(43,703)	(4,463)	–	–	–	(49,538)
Appropriations used	–	–	–	–	–	–	–
Nonexchange revenue	–	–	–	–	–	–	–
Donations and forfeitures of cash and cash equivalents	–	–	67,194	–	16,489	–	83,683
Transfers–in/out without reimbursement	–	–	763,675	–	–	–	763,675
Other budgetary financing sources	–	–	–	–	–	–	–
Other Financing Sources:							
Donations and forfeitures of property	–	–	–	–	–	–	–
Transfers–in/out without reimbursement	1,823	–	–	–	–	–	1,823
Imputed financing from costs absorbed by others	–	–	8,452	–	–	–	8,452
Other	–	–	–	–	–	–	–
Total Financing Sources	121,951	10,294,351	1,684,318	–	16,489	–	12,117,109
Net Cost of Operations	(46,099)	(8,667,181)	(1,822,510)	(1,545)	(16,247)	–	(10,553,582)
Ending Balances	**$ 17,698**	**$13,243,618**	**$ 792,830**	**$ 1,743**	**$ (9)**	**$ –**	**$ 14,055,880**

U.S. Agency for International Development
CONSOLIDATING STATEMENT OF BUDGETARY RESOURCES
For the Year ended September 30, 2004
(in thousands)

	Credit Program Funds	Program Funds	Operating Funds	Revolving Funds	Trust Funds	Other Funds	Credit-Financing	Allocations	Total
Budgetary Resources:									
Budget Authority	$ 176,499	$9,788,686	$ 849,460	$ –	$18,905	$ –	$ –	$ 238,828	$11,072,378
Unobligated Balances – Beginning of Period	368,508	1,785,630	37,384	2,694	1,995	–	981,619	189,268	3,367,098
Spending Authority from Offsetting Collections	851,779	22,640	29,148	4,930	–	–	218,325	2,595	1,129,417
Recoveries of Prior-Year Obligations	2,709	103,085	17,583	115	703	–	3,955	16,715	144,865
Temporarily Not Available Pursuant to Public Law	–	–	–	–	–	–	–	–	–
Permanently Not Available	(1,031,253)	(43,703)	(4,462)	–	–	–	(1,184)	(74)	(1,080,676)
Total Budgetary Resources	**368,242**	**11,656,338**	**929,113**	**7,739**	**21,603**	**–**	**1,202,715**	**447,332**	**14,633,082**
Status of Budgetary Resources:									
Obligations Incurred	189,933	9,776,105	846,333	5,255	19,576	–	234,102	337,130	11,408,435
Unobligated Balances–Available	178,048	1,860,643	80,734	2,484	2,027	–	968,613	100,194	3,192,742
Unobligated Balances–Unavailable	261	19,590	2,046	–	–	–	–	10,008	31,905
Total Status of Budgetary Resources	**368,242**	**11,656,338**	**929,113**	**7,739**	**21,603**	**–**	**1,202,715**	**447,332**	**14,633,082**
Relationship of Obligations to Outlays:									
Obligated Balance, Net, Beginning of Period	(5,842)	9,082,772	175,584	751	21,259	–	1,597	1,298,721	10,574,842
Obligated Balance, Transferred, Net	–	–	–	–	–	–	–	–	–
Obligated Balance, Net, End of Period	34,791	11,218,291	196,964	1,252	31,229	–	11,031	1,267,439	12,760,997
Outlays:									
Disbursements	146,611	7,537,501	807,589	4,638	8,903	–	220,712	216,834	8,942,788
Collections	(851,798)	(22,639)	(27,475)	(2,229)	–	–	(218,325)	(2,595)	(1,125,061)
Less: Offsetting Receipts	–	–	–	–	–	–	–	–	–
Net Outlays	**$(705,187)**	**$7,514,862**	**$ 780,114**	**$ 2,409**	**$ 8,903**	**$ –**	**$ 2,387**	**$ 214,239**	**7,817,727**

U.S. Agency for International Development
CONSOLIDATING STATEMENT OF FINANCING
For the Year ended September 30, 2004
(in thousands)

	Credit	Program	Operating	Revolving	Trust	Other	Total
Resources Used to Finance Activities:							
Budgetary Resources Obligated							
Obligations Incurred	$ 424,035	$ 10,113,235	$ 846,333	$ 5,255	$ 19,577	$ –	$ 11,408,435
Appropriations transferred to/from other agencies (net)	–	256,235	950,192	–	–	–	1,206,427
Total Obligations Incurred	424,035	10,369,470	1,796,525	5,255	19,577	–	12,614,862
Less: Spending authority from offsetting collections and recoveries	(1,076,768)	(145,035)	(46,731)	(5,045)	(703)	–	(1,274,282)
Spending authority transferred to/from other agencies (net)	–	14,218	(186,549)	–	–	–	(172,331)
Total Spending authority from offsetting collections and recoveries	(1,076,768)	(130,817)	(233,280)	(5,045)	(703)	–	(1,446,613)
Net Obligations	(652,733)	10,238,653	1,563,245	210	18,874	–	11,168,249
Other Resources							
Donated and Credit Program Revenue	(123,611)	(24)	130	–	–	–	(123,505)
Imputed Financing From Costs Absorbed by Others	–	–	8,452	–	–	–	8,452
Net other resources used to finance activities	(123,611)	(24)	8,582	–	–	–	(115,053)
Total resources used to finance activities	**(776,344)**	**10,238,629**	**1,571,827**	**210**	**18,874**	**–**	**11,053,196**
Resources Used to Finance Items not Part of the Net Cost of Operations:							
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided	(40,013)	(1,556,081)	200,094	1,295	(2,331)	–	(1,397,036)
Resources that fund expenses recognized in prior periods	–	–	3,163	–	–	–	3,163
Budgetary offsetting collections and receipts that do not affect net cost of operations	–	–	–	–	–	–	–
Credit program collections which increase liabilities for loan guarantees or allowances for subsidy	1,070,104	–	–	40	–	–	1,070,144
Other	–	–	(218)	–	–	–	(218)
Resources that finance the acquisition of assets	974	(13,679)	32,864	–	–	–	20,159
Total resources used to finance items not part of net cost of operations	**1,031,065**	**(1,569,760)**	**235,903**	**1,335**	**(2,331)**	**–**	**(303,788)**
Total resources used to finance net cost of operations	**254,721**	**8,668,869**	**1,807,730**	**1,545**	**16,543**	**–**	**10,749,408**
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:							
Components Requiring or Generating Resources in Future Periods:							
Increase in annual leave liability	122	–	1,416	–	(296)	–	1,242
Upward/Downward reestimates of credit subsidy expense	(208,678)	–	–	–	–	–	(208,678)
Other	–	–	37,031	–	–	–	37,031
Total components of net cost of operations that will require or generate resources in future periods	(208,556)	–	38,447	–	(296)	–	(170,405)
Components not Requiring or Generating Resources							
Depreciation and Amortization	–	262	14,924	–	–	–	15,186
Revaluation of assets or liabilities	–	–	(805)	–	–	–	(805)
Other	(66)	(1,950)	(37,786)	–	–	–	(39,802)
Total components of net cost of operations that will not require or generate resources	(66)	(1,688)	(23,667)	–	–	–	(25,421)
Total components of net cost of operations that will not require or generate resources in the current period	(208,622)	(1,688)	14,780	–	(296)	–	(195,826)
Net Cost of Operations	$ 46,099	$ 8,667,181	$ 1,822,510	$ 1,545	$ 16,247	$ –	$ 10,553,582

November 15, 2004

MEMORANDUM

TO: CFO/FM, Lisa D. Fiely

FROM: AIG/A, Bruce N. Crandlemire

SUBJECT: Independent Auditor's Report on USAID's Financial Statements for Fiscal Years 2004 and 2003 (Report No. 0-000-05-001-C)

The Office of Inspector General (OIG) is transmitting its *Independent Auditor's Report on USAID's Financial Statements for Fiscal Years 2004 and 2003*. Under the Government Management Reform Act of 1994, USAID is required to prepare consolidated fiscal year-end financial statements. For FY 2004, USAID is required to submit the audited financial statements to the Office of Management and Budget (OMB) and the U.S. Department of the Treasury (Treasury) by November 15, 2004.

The Office of Inspector General has issued unqualified opinions on all five of USAID's principal financial statements for fiscal year 2004.

With respect to internal control, our report discusses one material internal control weakness and six reportable conditions identified during the audit. The material internal control weakness is related to USAID's process for reviewing and reporting on its quarterly accrued expenditures and accounts payable *(See page 10)*. The reportable conditions address USAID's need to (1) improve its certification process for mapping strategic objectives to performance goals; (2) reconcile its Fund Balance with the U.S. Treasury; (3) improve recognition and reporting over its accounts receivable; (4) perform regular intragovernmental reconciliations; (5) analyze and deobligate unliquidated obligations; and (6) improve its system for preparing its Management's Discussion and Analysis.

This report contains five recommendations to improve USAID's internal control over financial management, the preparation of its annual financial statements, and its compliance with laws and regulations.

We have received and considered your response to our findings and recommendations in the draft audit report *(see page 29)*. Based on your response, we have accepted your comments as management decisions. Please forward information related to the resolution of these findings to the Office of Management, Planning, and Innovation for acceptance and final action *(see Appendix II for USAID's Management Comments)*.

We appreciate the cooperation and courtesies that your staff extended to the OIG during the audit. The Office of Inspector General is looking forward to working with you on our audit of the fiscal year 2005 financial statements.

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Summary of Results

In our opinion, USAID's consolidated balance sheet, consolidated statement of changes in net position, consolidated statement of net cost, combined statement of budgetary resources, and consolidated statement of financing present fairly, in all material respects, the financial position of USAID as of September 30, 2004 and 2003, and its net cost, net position, and budgetary resources for the years then ended in conformity with generally accepted accounting principles *(see page 7)*.

Our audit identified one material internal control weakness and six reportable internal control conditions *(see page 9)*.

The material internal control weakness is identified as follows:

- USAID's process for reviewing and reporting its quarterly accrued expenditures and accounts payable needs improvement.

The reportable conditions relate to USAID's need to improve its:

1. Certification process for mapping its strategic objectives to its performance goals
2. Reconciliation of its Fund Balance with the U.S. Treasury
3. Process for recognizing and reporting its accounts receivable
4. Intragovernmental reconciliation process
5. Process for deobligating unliquidated obligations
6. System for preparing its Management's Discussion & Analysis

Our audit identified reportable noncompliance related to requirements of the Federal Financial Management Improvement Act, as follows:

- USAID's new core financial system is not deployed
- Funds control
- The U.S. Standard General Ledger at the transaction level

The other reportable instance of noncompliance identified in our audits relates to USAID's compliance with Section 620(q) and the Brooke Amendment of the Foreign Assistance Act of 1961.

Background

The United States Agency for International Development (USAID) was created in 1961 to advance the United States' foreign policy interests by promoting broad-based sustainable development and providing humanitarian assistance. USAID has an overseas presence in over 80 countries, 36 of which have operational accounting stations. In fiscal year 2004, USAID had total obligation authority of about $14.2 billion.

Under the Government Management Reform Act of 1994, USAID is required to annually submit audited financial statements to the Office of Management and Budget (OMB) and the U.S. Treasury. Pursuant to this Act, for FY 2004, USAID has prepared the following:

- Consolidated Balance Sheet,
- Consolidated Statement of Changes in Net Position,
- Consolidated Statement of Net Cost,
- Combined Statement of Budgetary Resources,
- Consolidated Statement of Financing,
- Notes to the principal financial statements,
- Other Required Supplementary Information, and
- Management's Discussion and Analysis.

Audit Objective

Did USAID's principal financial statements present fairly the assets, liabilities, net position, net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary resources for fiscal years 2004 and 2003?

In our opinion, the financial statements referred to above present fairly, in all material respects, in conformity with generally accepted accounting principles, USAID's assets, liabilities, and net position; net costs; changes in net position; budgetary resources; and reconciliation of nets costs to budgetary resources as of September 30, 2004 and 2003 and for the years then ended.

In accordance with *Government Auditing Standards*, we have also issued our reports (dated November 15, 2004) on our consideration of USAID's internal control over financial reporting and on our tests of USAID's compliance with certain provisions of laws and regulations. These reports are an integral part of an overall audit conducted in accordance with *Government Auditing Standards* and should be read in conjunction with this report.

Independent Auditor's Report on USAID's Financial Statements

Auditor's Opinion

We have audited the accompanying consolidated balance sheets of USAID as of September 30, 2004 and 2003, and the consolidated statements of changes in net position, consolidated statements of net cost, combined statements of budgetary resources, and consolidated statements of financing of USAID for the years ended September 30, 2004 and 2003.

We conducted our audits in accordance with auditing standards generally accepted in the United States, *Government Auditing Standards* issued by the Comptroller General of the United States and the Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, in conformity with generally accepted accounting principles, USAID's assets, liabilities, and net position; net costs; changes in net position; budgetary resources; and reconciliation of net costs to budgetary resources as of September 30, 2004 and 2003 and for the years then ended.

Management's Discussion and Analysis, Required Supplementary Information, and other accompanying information contain a wide range of data, some of which are not directly related to the financial statements. We do not express an opinion on this information. However, we compared this information for consistency with the financial statements and discussed the methods of measurement and presentation with USAID officials. Based on this limited work, we found no material inconsistencies with the financial statements or nonconformance with OMB guidance.

In accordance with *Government Auditing Standards*, we have also issued our reports, dated November 15, 2004 on our consideration of USAID's internal control over financial reporting and on our tests of USAID's compliance with certain provisions of laws and regulations. These reports are an integral part of an overall audit conducted in accordance with *Government Auditing Standards* and should be read in conjunction with this report.

Office of Inspector General

USAID, Office of Inspector General
November 15, 2004

Independent Auditor's Report on Internal Control

Report on Internal Control

We have audited the consolidated balance sheet of USAID as of September 30, 2004 and 2003. We have also audited the consolidated statement of changes in net position, consolidated statement of net cost, combined statement of budgetary resources, and consolidated statement of financing for the fiscal years ended September 30, 2004 and 2003, and have issued our report thereon dated November 15, 2004. We conducted the audits in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements.*

In planning and performing our audits of USAID's financial statements for the fiscal years ended September 30, 2004 and 2003, we considered its internal control over financial reporting by obtaining an understanding of the agency's internal control, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our system of internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control over financial reporting that might be reportable conditions. Under standards established by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the agency's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal control, misstatements, losses, or noncompliance may occur and not be detected. Our consideration of internal control over financial reporting would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted certain matters (discussed in the following paragraphs) involving internal control and its operation that we consider to be reportable conditions, and one matter that we consider to be a material weakness.

The material weakness relates to USAID's need to improve its process for reviewing and reporting its quarterly accrued expenditures and accounts payable.

The reportable conditions relate to USAID's need to improve its:

1. Certification process for mapping its strategic objectives to its performance goals.
2. Reconciliation of its Fund Balance with the U.S. Treasury.
3. Process for recognizing and reporting its accounts receivable.
4. Intragovernmental reconciliation process.
5. Process for deobligating unliquidated obligations.
6. System for preparing its Management's Discussion & Analysis.

We also noted other matters involving the internal control over financial reporting, which we reported to USAID management in a separate letter dated November 15, 2004.

With respect to internal control related to performance measures reported in USAID's Performance and Accountability Report, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin 01-02. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

Material Weakness

USAID's Process for Reviewing and Reporting Its Quarterly Accrued Expenditures and Accounts Payable Needs Improvement

In our testing of USAID's accrued expenditures at selected overseas missions and bureaus in Washington, DC, the OIG determined that existing controls over the accruals process needed improvement. USAID's accrued expenditures and accounts payable recorded in the core accounting system were less accurate because of deficiencies and unresolved training needs of USAID's Certifying Technical Officers. The OIG proposed, and USAID made, $254 million of adjustments to more accurately present accrued expenditures and accounts payable reported on USAID's financial statements.

According to USAID's Automated Directives System (ADS) 631, financial documentation represents any documentation that impacts on or results in financial activity. It is not limited to documentation within the financial management operations but includes any source material resulting in a financial transaction. Contracting Technical Officers (CTOs), Loan Officers, Grants Officers, Strategic Objective teams, and others are responsible for retaining financial documentation and ensuring its availability for audit. ADS 631 also states that the Obligation Manager must gather cost data—such as supporting project documentation, activity reports, delivery reports, or fixed reoccurring expenses for the accruals exercise and then compare the data to payment histories and advances to estimate quarterly accruals.

The OIG found that USAID's amounts accrued via accrual worksheets at overseas missions and in Washington, DC lacked sufficient documentation to support accrual estimates and that such documentation could often not be produced subsequent to the recording of the estimates. We also found many accrual documentation errors, including incorrect calculations, misinterpretation of grantee information, and incorrect comparisons of estimated expenditure reports. In addition, we noted that USAID program managers did not have the training necessary to adequately estimate accruals.

At USAID, accrued expenditures are accounting estimates of services or goods rendered which have not been paid by USAID. In conducting quarterly accrual estimates, USAID relied on the efforts of CTOs at overseas missions and in Washington, DC. During FY 2004, these efforts were limited by the inability of USAID's overseas Mission Accounting Control System (MACS) to monitor various funding sources of the same project or program. Project managers and financial analysts had not documented their calculations or correspondence from grantees, their analysis of expenditure rates, or their review of accounting reports. Financial analysts estimating accruals also indicated that some accruals for completed projects are reported the same way for several quarters because missions have either not received disbursement data from USAID/Washington or because mission or Washington-based analysts have not received final vouchers indicating project completion.

USAID has taken action to address this situation. In previous years, simply identifying an individual responsible for providing accrual estimates was difficult. In response to an OIG recommendation made in FY 2004, USAID has worked with the contractor maintaining its core accounting system to improve the quality of this information. As a result of this work, the OIG can more easily locate USAID managers responsible for maintaining accrual estimates.

USAID has implemented OIG recommendations that have improved the overall process. Nevertheless, USAID's reported accounts payable and accrued expenditures are still vulnerable to material error, and annual pipeline information used at various levels of USAID management may be unreliable as long as CTOs are not trained to adequately perform quarterly accruals. In prior years, existing controls over the accruals process have been ineffective and resulted in incomplete or inadequate written supporting documentation for many accrual transactions. To address this condition, the OIG is making the following recommendation.

> **<u>Recommendation No 1</u>: We recommend that USAID's Chief Financial Officer, in coordination with USAID's Office of Human Resources, update USAID's Cognizant Technical Officer training course and Financial Management Overview training course to include sessions on developing and supporting quarterly accrual estimates. The training should include information on supporting documentation and on developing estimates in the absence of timely disbursement data necessary to develop accurate accruals.**

Reportable Conditions

Certification Process for Mapping Strategic Objectives to Performance Goals Needs Improvement (Previously Reported as a Material Weakness)

USAID's Bureau for Policy and Program Coordination (PPC) needs to improve the certification process for mapping its strategic objectives (SOs) to agency performance goals. While USAID has implemented OIG recommendations in improving PPC's system for certifying strategic objective to performance goals, we identified problems that continue to affect USAID's ability to obtain certifications on a timely and consistent basis. These problems occurred because USAID's process for obtaining certifications was not always followed consistently or in a timely manner and because PPC's Annual Reports Database was incomplete. As a consequence, the existing certification process may result in inaccurate information being reported on USAID's Statement of Net Cost.

In response to an FY 2003 OIG audit recommendation, PPC instructed USAID operating units to certify that individual strategic objectives expending funds in FY 2004 were correctly assigned to one of its 34 separate performance goals. In January 2004, PPC forwarded two tables to USAID operating units—one identifying strategic objectives linked to performance goals and the other with unlinked strategic objectives—and instructed USAID operating units to certify the accuracy of strategic objectives assigned to USAID's performance goals by April 30, 2004. This information was developed from PPC's Annual Reports

Database (ARD), which contains all USAID strategic objectives active when the ARD was first created. PPC received all of the certifications from USAID's operating units, with certifying officers' statements and signatures, by May 14, 2004.

In June 2004, however, we determined that several strategic objectives which were either not contained in the ARD or were considered inactive by the certifying official at the time of the certification were not captured in the

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certifications from mission directors. Many inactive strategic objectives which still had significant expenditure activity were not considered in PPC's initial request. Upon this discovery, PPC worked with USAID's Office of Financial Management and the bureau program offices to ensure that these strategic objectives were appropriately linked to agency performance goals (i.e. second round). Had these strategic objectives remained unassigned, USAID would have reported improperly allocated costs in its FY 2004 Statement of Net Cost.

PPC did not require individual certifications for the second round of validating strategic objectives of agency goal linkages. Instead, it accepted email correspondence from the operating units for these previously unassigned strategic objectives as evidence that these were legitimate changes made by an appropriate official. When the final table showing the attributions made during the second round was finished, PPC required the head of each bureau's program office to sign the table with the words, "I am satisfied with the way the listed SOs are attributed to Agency goals." If PPC does not implement a certification policy consistently throughout all USAID operating units, the overall quality of these certifications will be compromised.

Statement of Federal Financial Accounting Standard (SFFAS) No. 4 requires federal agencies to accumulate and report the costs of its activities on a regular and consistent basis for management information purposes. SFFAS No. 4 states that reliable information on the costs of federal programs and activities is crucial for effective management of government operations. The information supplied to internal and external users should be reliable and useful in making evaluations or decisions.

> **Recommendation No 2: We recommend that the USAID Chief Financial Officer, in coordination with the Assistant Administrator of the Policy and Program Coordination Division:**
>
> **2.1 Ensure that annual certifications of strategic objectives to agency goals, which are made when information from the Annual Reports Database are finalized, are conducted consistently by all USAID operating units.**
>
> **2.2 Include all active strategic objectives expending funds in the Annual Reports Database.**

USAID's Process for Reconciling Its Fund Balance with the U.S. Treasury Needs Improvement (Repeat Finding)

Because of the significance of the unsupported year-end adjustments, the OIG determined that USAID's approach and internal controls over its fund balance reconciliation process need enhancement. USAID did not develop written narratives on unreconciled conditions of its fund balance accounts

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documenting the reasons for making year-end adjustments to resolve $392 million of differences between its balances and the pre-closing balances reported on the year-end closing statement provided by the U.S. Treasury's Financial Management Service (FMS). While preparing the year-end closing statement, USAID made adjustments of $95 million net ($392 million in absolute value) to bring its balances in agreement with the U.S. Treasury on the year-end closing statement and annual financial statement. This is compared to the $35 million net amount ($201 million in absolute dollar value) that was reported in FY 2003.

The U.S. Department of Treasury's guidance for reconciling fund balances requires that federal agencies research and resolve differences reported by the U.S. Treasury on a monthly basis. Agencies must also resolve all differences between the balances reported in their general ledger fund balance with the U.S. Treasury accounts and the balances reported by the U.S. Treasury. This guidance stipulates three months as a reasonable period for clearing the differences. U.S. Treasury reconciliation procedures state that an agency may not arbitrarily adjust its fund balance with the U.S. Treasury account. The procedures further state that an agency can adjust its fund balance with the U.S. Treasury account balance only after clearly establishing the causes for any errors and properly correcting those errors. In addition, the procedures state that an agency should document "month cleared" (the accounting month that the discrepancy was adjusted), accounting periods, required explanations, and brief narratives that disclose the cause of the discrepancy.

According to GAO's *Standards for Internal Control in Federal Government*, deficiencies found during ongoing monitoring should be communicated to the individual responsible for the particular function and also to at least one level of management above that individual. Serious matters should be reported to top management. This directive states that federal program managers should continually seek ways to improve accountability and to minimize and improve operational problems. USAID federal managers must seek, identify and report specific operational problems that should be disclosed based on the review of USAID's monthly fund balance reconciliations.

The OIG identified several problems that continue to limit USAID's ability to reconcile and correct differences between its reported fund balances and the control balances reported by the FMS. Specifically, USAID did not regularly document the conditions resulting in unreconciled conditions. USAID spent considerable time resolving timing differences associated with unreconciled amounts but was not able to implement procedures to quickly research and resolve other types of reconciling items. Also, authorized USAID officials did not review, certify, or sign monthly reconciliation documents, in accordance with TFM 5100. The OIG determined that because of these problems, it was not clear whether USAID clearly established and reported the conditions to the USAID managers for the function and whether USAID properly corrected

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reconciling items and unreconciled conditions of the fund balance accounts. Moreover, USAID's overseas missions continue to have large unreconciled balances because they have not been able to implement procedures to reconcile items quickly and because accounting stations responsible for several client missions do not consistently receive documentation to support unreconciled transactions. As a result, USAID had to make an adjustment to reconcile its Fund Balance with the U.S. Treasury.

This condition does not have a material impact on the *Fund Balance with Treasury* line item reported on USAID's FY 2004 Balance Sheet; Note 2, *Fund Balances with Treasury*, or on amounts reported as unobligated balances on USAID's *Schedule of Budgetary Resources by Major Appropriation* for the year ended September 30, 2004.

In FY 2003, USAID implemented a new reporting system that has been used to determine its missions' reconciling items at the end of each accounting period. We determined that this new system was designed to track all reconciling items that existed between USAID's overseas mission records and FMS records, and allowed USAID access to information on these differences.

We identified similar reconciliation conditions in a previous audit report and made recommendations for corrective action by USAID management. As of September 30, 2004, in a cash reconciliation directive for USAID's overseas missions, USAID had taken action to implement those recommendations by identifying common problems that cause timing differences and other unreconciled conditions, and ways to avoid common problems. The information in USAID's cash reconciliation procedures referenced the U.S. Treasury's guidance (*Fund Balance with Treasury Reconciliation Procedures*) for identifying common errors or problems.

Because USAID is currently developing procedures to respond to a previous recommendation, we are not making a new recommendation to address the unreconciled condition between USAID's overseas missions and the Department of Treasury. We will review these procedures during the FY 2005 financial statement audit. However, because USAID/Washington continues to record unsupported and undocumented adjustments to its year-end fund balance to bring this account into agreement with the U.S. Treasury, we are including the following recommendation to USAID management:

> **Recommendation No. 3: We recommend that USAID's Chief Financial Officer require USAID's Office of Financial Management to develop and implement specific written desk procedures requiring documenting and reporting processes for the narratives of (1) conditions of reconciling items and (2) unreconciled conditions of fund balance accounts for the reconciliation of the Fund Balance**

with Treasury, that incorporate and enhance existing USAID and federal guidance.

USAID's Process for Recognizing and Reporting Its Accounts Receivable Needs Improvement (Repeat Finding Previously Reported as a Material Weakness)

USAID's process for receivables due to USAID needs improvement in ensuring that all receivables are accounted for and validated in the amount reported for accounts receivable in its financial statements. Currently, USAID records receivables after its missions and the Office of Acquisition and Assistance (OAA) notify OFM that employees, vendors, contractors, and grantees owe funds to USAID. Overall, USAID still does not have an integrated system for ensuring that its accounts receivable are complete, and no single person in USAID is solely responsible for ensuring that USAID accounts receivable are accurate for interim and year-end financial reporting.

SFFAS No. 1, paragraph 40 to 52, *Accounts Receivable*, requires the recognition (recording) of accounts receivable when a claim to cash or other assets has been established. The establishment of accounts receivable cannot occur on a timely basis unless there are adequate procedures in place for recognizing and reporting them at the end of each accounting period. Such a system does not exist at USAID for its overseas locations.

The OIG determined that USAID had inadequate supervisory controls for ensuring that USAID officials completely determined and reported all validated receivables to the USAID Office of Financial Management. Approximately $5 million of USAID's accounts receivable that have been outstanding for two years or more were not validated as of September 30, 2004.

Since it has not fully implemented policies and procedures for its overseas missions and its Office of Acquisition and Assistance to immediately recognize accounts receivable, USAID had to rely on its web-based data collection tool to determine the year-end accounts receivable balances for its overseas missions. USAID continues to lack an integrated financial management system with the ability to recognize and account for its worldwide accounts receivable. This internal control weakness was reported in a previous audit report[1] and USAID is still in the process of integrating its financial management systems. Because this systemic weakness continues to exist, we have included it as a reportable condition in this report. However, we are not including an additional recommendation to address the condition. We will continue to monitor USAID's progress in implementing the OIG's previously recommended corrective actions.

[1] Independent Auditor's Report on USAID's Consolidated Financial Statements, Internal Controls and Compliance for Fiscal Years 2003 and 2002. Report No. 0-000-04-001-C, dated November 14, 2003.

USAID's Intragovernmental Reconciliation Process Needs Improvement

USAID did not reconcile its significant intragovernmental activities and balances with its federal trading partners throughout fiscal year 2004. The U.S. Department of Treasury's Financial Management Service (FMS) reported $14.6 billion in intragovernmental balances at USAID in its 4th quarter Intragovernmental Summary Report. However, the summary report identified $10.4 billion of differences between transactions reported by USAID and those reported by USAID's federal trading partners. These differences were reported by FMS in several reports, including the Material Differences/Status of Disposition Certification (MD/SD) Report identifying differences by federal trading partner and differences in reported intragovernmental activity by reciprocal category.[2] Although USAID reconciled material differences identified by FMS in its quarterly MD/SD Report in accordance with Treasury Financial Manual (TFM) Bulletin No. 2004-04, it did not consistently reconcile other significant differences by reciprocal category with its federal trading partners throughout FY 2004.

Section 11.3 of OMB Bulletin 01-09 requires federal agencies to perform quarterly reconciliations of intragovernmental transactions beginning in fiscal year 2003. These reconciliations are to be conducted in accordance with the FMS *Federal Intragovernmental Transactions Accounting Policies Guide*. Beginning in the quarter ending March 31, 2004, FMS implemented its Intragovernmental Management Control Plan to address a material weakness cited by the Government Accountability Office (GAO) in the Financial Report of the United States Government. TFM Part 2, Chapter 4706.1 (TFM 4706.10) further references the requirements of OMB Bulletin 01-09. FMS monitors the intragovernmental payment and collection (IPAC) process for the entire federal government and accumulates daily IPAC transactions among all federal agencies using its Intragovernmental Reporting and Analysis System. To facilitate the quarterly FMS reports, FMS developed a reconciliation process based on a reciprocal category concept. As of September 30, 2004, FMS identified $10.4 billion of unreconciled differences between USAID and 37 separate federal agencies and one unassigned agency.

USAID did not reconcile other significant activities and balances for fiscal year 2004 because it did not effectively assign the necessary staff resources to reconcile its quarterly activities and balances with federal trading partners and promptly resolve differences. On the other hand, these same federal trading partners have not always attempted to do the same with USAID. As a result of the reportable condition, year-end balances in USAID's intragovernmental line items reported on the financial statements may be misstated.

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2 For example, federal interests are recorded in pairings of related U.S. Standard General Ledger accounts (federal interest receivable, interest payable, appropriation transfers in/out, revenue and expense and budgetary accounts).

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The OIG determined that, in accordance with TFM Bulletin No. 2004-04, USAID could begin to reconcile significant activities and balances in FY 2004 on a quarterly basis for most activities and balances identified in the MD/SD. USAID has taken actions to address those material differences reported by FMS in the MD/SD every quarter. USAID has also informed the OIG of its plan to reconcile all differences exceeding $100 million with federal trading partners. We will review USAID's implementation of this plan in future audits.

In the second quarter of FY 2004, after FMS submitted MD/SD reports to federal agencies, USAID began performing intragovernmental reconciliations of reported material differences. As a result, USAID discovered that activity differences with federal trading partners occurred because of timing differences and reporting errors between federal agencies. In one instance, USAID resolved $856 million of activity differences resulting from erroneously reporting a trading partner code. Unresolved differences with federal trading partners may also be reported in the MD/SD because of accounting errors or differences in accounting methodologies.

Because USAID did not begin to resolve other significant differences in fiscal year 2004, however, we are making the following recommendation:

> **Recommendation No 4: We recommend that USAID's Chief Financial Officer direct its Financial Management Office to conduct quarterly intragovernmental reconciliations of activity and balances with its trading partners, in accordance with the requirements of the *Federal Intragovernmental Transactions Accounting Policies Guide*, issued by the Department of Treasury's Financial Management Service.**

Unliquidated Obligations Were Not Always Deobligated as Necessary (Repeat Finding)

USAID needs to improve its determination process for deobligating unliquidated obligations. At fiscal year-end, USAID's records show about $61 million of unliquidated obligations that were not deobligated as necessary and may no longer be needed for their original obligation purpose. In response to a previous OIG audit recommendation, USAID's Business Transformation Executive Committee (BTEC) reviewed approximately $80 million in inactive obligations of $100,000 or more during FY 2004 and coordinated with USAID Bureaus to review those inactive obligations and to make a determination regarding the deobligation of those funds. As of the fiscal year-end, however, USAID had not determined whether approximately $15 million of those inactive obligations could be deobligated because USAID Bureaus did not report their determination of those inactive obligations to the BTEC. USAID also did not deobligate about

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$46 million in other inactive obligations from current USAID records because its bureaus did not develop support for these determinations or report their results to USAID. As a result, as of September 30, 2004, about $61 million in inactive obligations still remained unliquidated that could be available for deobligation. This represents a decrease from the $119 million in unliquidated obligations reported in our FY 2003 audit. More than 51 percent of the $61 million is over the $100,000 threshold established by USAID for periodic review and deobligation as necessary. Consequently, remaining unliquidated amounts will not be available to USAID for other purposes.

USAID's Automated Directives System (ADS) 621.3.15, *Annual Certification of Unexpended Balances*, states, "As part of the annual budget process, Assistant Administrators, independent office directors, and mission directors must certify whether unexpended balances are necessary for ongoing programs." The directive further requires that when conducting reviews of obligations to identify funds that must be deobligated, obligation managers and others involved in the review process should consider circumstances that could result in excessive or unneeded obligation balances. According to ADS 621.3.13, where there is an unobligated balance that has remained unchanged for twelve months or more and there is no evidence of receipt of services and/or goods during that same 12-month period, the remaining balances may no longer be needed. But ADS 621 does not identify an appropriate way of reviewing unliquidated obligations, including guidance on the use of aging to determine their validity.

In FY 2002, USAID's Business Transformation Executive Committee working group reviewed 576 awards with performance periods ending on or before September 30, 2000, and having unliquidated obligation balances of $100,000 or more. As a result of the group's review, USAID deobligated about $100 million of the reported unliquidated obligations related to the 576 awards. However, because USAID has not fully institutionalized business processes and policy and procedural improvements, many other unliquidated obligations may be available for deobligation.

In FY 2004, USAID had taken actions to implement our previously reported recommendations by (1) expanding procedural guidance for reviews needed to identify unliquidated obligations that are no longer needed, and (2) including both ad hoc reports and core accounting system reports to assist USAID Bureaus in reviewing unliquidated obligations and making determinations regarding the deobligation of funds. Despite that improvement, as of September 30, 2004, USAID did not resolve approximately $61 million in inactive obligations in these reports. As a result, USAID was unable to provide its program managers and oversight agencies with amounts available for other purposes. This reportable condition does not have any material impact on the Statement of Budgetary Resources.

USAID's Accrual Reporting System requires USAID's obligation managers to review approve system-generated expenses based on recorded unliquidated obligations. If this system is maintained as intended, it should enable USAID to routinely identify obligations that could be deobligated. We will continue to review USAID's progress in reviewing inactive obligations in our FY 2005 financial statement audit.

USAID's System for Preparing Its Management's Discussion and Analysis Needs Improvement (Repeat Finding)

OMB Bulletin 01-02 requires the OIG to (a) obtain an understanding of the components of internal controls relating to the existence[3] and completeness[4] assertions relevant to the performance measures included in the MD&A and (b) report on those internal controls that have not been properly designed and placed in operation.

The MD&A is a narrative overview, prepared by management, which describes the reporting entity and its mission, activities, program and financial results, and financial condition. Statement of Federal Financial Accounting Standards (SFFAS) No. 15, *Management's Discussion and Analysis*, requires the MD&A to be included in each annual financial statement as required supplementary information. OMB Bulletin 01-09 provides additional guidance for preparing the MD&A.

Based on a limited review of USAID's system to collect and report performance information in the draft MD&A for FY 2004, the OIG identified the following weakness:

- USAID's current system does not allow the reporting of agency-wide performance results for the current year. Certain performance information for FY 2004 indicating the extent to which programs were achieving their objectives is based on results achieved in FY 2003. For example, Section 1.6 *Most Important Results and Continuing Challenges* does not identify targets against which to compare results. Although these results include predominantly FY 2004 information, FY 2003 information is included as well. Therefore, Section 1.6 of the MD&A for FY 2004 does not provide a clear picture of planned and actual performance for fiscal year 2004 and does not adequately reflect the actual costs for the current fiscal year.

[3] This management assertion deals with whether information included in the MD&A actually occurred during the given period.

[4] This management assertion deals with whether all performance results which should be presented have been included.

USAID has made notable improvements to this year's draft MD&A over the FY 2003 MD&A in two major ways:

- The draft MD&A for FY 2004 reported more current-year results in meeting the criteria set by OMB than the prior year's MD&A. USAID's present ability to compare the estimated current-year results against established goals and targets is a significant step in the right direction.

- The draft MD&A for FY 2004 uses USAID's New Strategic Planning Framework and Goal Structure – *Joint USAID/State Strategic Plan* – between the State Department and USAID. The new framework is designed to represent a more coherent, concise and logical reflection of how the Department and USAID organize their work towards given results/outcomes.

As the OIG reported in previous years, we recommend that USAID continue its efforts to improve its system for collecting, summarizing, and preparing actual performance information included in the MD&A. Specifically, USAID needs to further refine its current system so that the MD&A contains a clear picture of USAID's planned performance goals and targets for the current year and a comparison of these goals with actual results for the current year.

This report is intended solely for the information and use of the management of USAID, OMB and Congress, and is not intended to be and should not be used by anyone other than those specified parties.

Office of Inspector General

USAID, Office of Inspector General
November 15, 2004

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Independent Auditor's Report on Compliance With Laws and Regulations

Report on Compliance with Laws and Regulations

We have audited the consolidated balance sheet of USAID as of September 30, 2004 and 2003. We have also audited the consolidated statement of changes in net position, consolidated statement of net cost, combined statement of budgetary resources, and consolidated statement of financing for the fiscal years ended September 30, 2004 and 2003, and have issued our report thereon. We conducted the audit in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

USAID management is responsible for complying with laws and regulations applicable to USAID. As part of obtaining reasonable assurance about whether USAID's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin 01-02, including the requirements referred to in the Federal Financial Management Improvement Act of 1996 (FFMIA). We limited our tests of compliance to these provisions and did not test compliance with all laws and regulations applicable to USAID.

The results of our tests of compliance with the laws and regulations described in the preceding paragraph, exclusive of FFMIA, disclosed an instance of noncompliance with Section 620(q) of the Foreign Assistance Act of 1961, and the Brooke Amendment.

Under FFMIA, we are required to report whether USAID's financial management systems substantially comply with federal financial management systems requirements, applicable federal accounting standards, and the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803 (a) requirements. The results of our tests disclosed three instances in which USAID's financial management systems did not substantially comply with FFMIA requirements.

Our tests of compliance with selected provisions of laws and regulations disclosed instances of noncompliance considered to be reportable under *Government Auditing Standards*. However, our objective was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

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Noncompliance Other than FFMIA

620(q)/Brooke Amendment Report is not Functioning as a Proper Notice

Since March 2004, the USAID-prepared 620(q)/Brooke Amendment Violation Report has not properly reflected the status of foreign governments in violation or potential violation of Section 620(q) of the Foreign Assistance Act of 1961 and the Brooke Amendment to the Foreign Operations Appropriations Act of 1999. Section 620(q) prohibits the provision of federal assistance to any foreign government in default, for more than six months, on its loan obligations to the U.S. The Brooke Amendment identifies the same sanctions for foreign governments in default for more than one year. In May 2004, USAID should have identified a foreign government in the potential 620(q) violation category for failure to fulfill its loan obligations. This foreign government was not listed on the report until they were in Brooke violation in October 2004 after having received $22.5 million in new obligations from USAID subsequent to May 2004. USAID's Loan Management Division (LMD) did not notify the foreign government of its potential 620(q)/Brooke violation with the appropriate 45-day or 120-day notice. Although USAID is rescheduling a portion of the foreign government's loans, LMD did not effectively monitor several loans in arrears that were not undergoing rescheduling. Also because Riggs Bank (USAID's loan servicing agent) does not submit its reports on delinquent loans directly to USAID's Chief Financial Officer (CFO) in addition to LMD, the CFO could not effectively monitor the entire loan management process. LMD did not ensure that payments were made on these loans and did not have current written procedures for preparing and maintaining the 620(q)/Brooke Amendment Violation Report, particularly with respect to reviewing potential violations for countries undergoing loan rescheduling.

ADS 623.3.5.7 Monitoring 620(q)/Brooke states that LMD has the primary responsibility for monitoring 620(q) and Brooke compliance using Department of Defense and Export Import Bank information and internally developed reports on delinquency, and for notifying bureaus and missions when a USAID loan payment is past due. At least one follow-up to this initial message is sent on USAID loan arrearages stating that, unless payment is received, 620(q) or Brooke (if applicable) apply on a specific date. This message must provide a warning of about 45 days for either 620(q) or Brooke dates.

Because the report is not properly prepared, management's ability to properly monitor countries that are in potential or current violation is impaired; the foreign governments may not be properly notified within at least 45 days of their potential violation to allow time to prevent the violation; and USAID and other federal agencies may commit new obligations after a particular country moves into noncompliance with 620(q) or Brooke.

Recommendation No. 5: We recommend that USAID's Chief Financial Officer update written procedures related to the preparation of the 620(q)/Brooke Amendment Violation Report; the monitoring of non-rescheduled loans for countries under rescheduling; and the receipt of loan delinquency reports from its loan servicing agent.

Reportable Noncompliance with FFMIA (Repeat Finding)

OIG reported that USAID's financial management systems did not substantially comply with system requirements under FFMIA.[5] USAID's reportable noncompliance conditions related to (1) USAID's new core financial management system at overseas missions not being deployed, (2) funds control issues in USAID's core financial management system in Washington, and (3) USAID's financial management system compliance with the U.S. Standard General Ledger at the transaction level for its overseas missions. As a result, during FY 2004, USAID relied on a combination of outdated legacy systems; informal, unofficial records; and a core financial management system which suffered from technical and operational problems.

According to FFMIA, federal agencies must implement and maintain financial management systems that comply substantially with federal financial management system requirements. The Act states that users should have on-line access to, or receive daily reports on, the status of funds to perform analysis or make decisions. OMB Circular A-11 states that an agency that is not in compliance with FFMIA must prepare a remediation plan. The purpose of a remediation plan is to identify activities planned and underway that will allow USAID to achieve substantial compliance with FFMIA. Remediation plans must include the resources, remedies, interim target dates, and responsible officials. Further, the remediation target dates must be within three years of the date the system was determined not to be substantially compliant.

In response to our previous audit reports, USAID closed computer security as a material weakness in March 2004 and implemented a new core financial system at five missions. Currently, USAID plans to complete worldwide deployment of the system by the second quarter of fiscal year 2006. The integration of the procurement system is planned to occur at that time. Compliance with financial management system requirements will depend upon the completion of successful implementation of the systems. The OIG will

[5] Reports on USAID's Consolidated Financial Statements, Internal Controls, and Compliance for Fiscal Year 2000 (Audit Report No. 0-000-01-006-F, February 26, 2001); Reports on USAID's Consolidated Financial Statements, Internal Controls, and Compliance for Fiscal Year 1999 (Audit Report No. 0-000-00-006-F, February 18, 2000); and Audit of the Extent to Which USAID's Financial Management System Meets Requirements Identified in the Federal Financial Management Improvement Act of 1996 (Audit Report No. A-000-98-003-P, March 2, 1998).

continue to monitor USAID's progress in becoming substantially compliant with FFMIA.

New Core Financial Management System Is Not Deployed

While USAID did begin overseas deployment of its new core financial system, it did not implement the deployment of the new core financial management system for other overseas missions. Pilot deployment took place at USAID missions in Colombia, Egypt, Ghana, Nigeria and Peru in June 2004. According to USAID officials, all 38 accounting stations will be converted to the new system by the spring of 2006.

OMB Circular A-127, *Financial Management Systems*, prescribes policies and standards for agencies to follow in developing, operating, evaluating, and reporting on financial management systems. Section 7 of the Circular identifies the requirements that federal financial systems should meet. In January 2001, OMB issued guidance, *Revised Guidance for the Federal Financial Management Improvement Act*, to supplement Office of Management and Budget Circular A-127. The purpose of the guidance is to help determine whether financial systems substantially comply with FFMIA requirements. That guidance identifies various requirements that an agency must meet and USAID's ability to meet financial management system requirements is contingent upon successful overseas deployment of its new financial system.

In 2004, the Department of State (State) and USAID submitted a joint Office of Management and Budget A-300 budget submission. That budget submission stated that State and USAID will share a core financial system but maintain separate databases due to the very different business processes and information requirements. Joint State and USAID operations are to begin in October 2005.

Funds Control Problem in the Core Accounting System

Although USAID has enhanced its financial management systems, it continued to use a separate system to process obligations for its overseas missions because it has not integrated the systems to further strengthen funds control. As a result, USAID's financial system may not have provided users with complete, accurate, and timely financial information needed for decision-making purposes.

According to OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, each federal agency is responsible for establishing a funds control system that will ensure that the agency does not obligate or expend funds in excess of those appropriated or apportioned. The Circular also states that

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multi-year unobligated funds remaining available at year-end must be reapportioned in the upcoming fiscal year.

In January 2003,[6] the OIG reported that, because USAID did not have an integrated financial management system, it used a separate system to process obligations for its overseas missions. As such, the appropriation amount displayed as available after the roll-up of mission obligations was overstated by the amount of these same mission obligations. To compensate for this weakness, USAID allowed only a few users to apportion funds. Further, those users had access to records held outside of USAID's core accounting system to track mission obligations and determine the correct amount available for apportionment. Because this issue should be corrected with the deployment of the core financial system to the overseas missions, we did not make any recommendations. The OIG will continue to monitor USAID's progress in deploying its core financial system overseas.

USAID's Core Financial Management System for Overseas Mission Activities Did Not Comply with the U.S. General Ledger Standard at the Transaction Level

Because the Mission Accounting and Control System continued to operate as the financial system for overseas missions, USAID has not recorded mission activities using the standard general ledger at the transaction level to support financial reporting and meet requirements. Therefore, USAID cannot ensure that transactions are posted properly and consistently from mission to mission.

FFMIA requires agencies to implement and maintain systems that comply substantially with, among other things, the United States Standard General Ledger (USSGL) at the transaction level. This requires the agency's recording of financial events to be consistent with all applicable account descriptions and posting models/attributes reflected in the standard general ledger issued by the Department of the Treasury, Financial Management Service.

The OIG previously determined that USAID did not substantially comply with the USSGL at the transaction level. Specifically, in fiscal year 2001, the OIG reported that USAID did not record mission activities accounting for approximately 52 percent of USAID's total net cost of operations—using the standard general ledger at the transaction level. This occurred because USAID recorded mission activities in the Mission Accounting and Control System—a computer-based system that did not have a standard general ledger chart of accounts. Instead, the Mission Accounting and Control System uses transaction codes to record transactions.

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[6] Report on USAID's Consolidated Financial Statements, Internal Controls And Compliance for Fiscal Year 2002 , (Audit Report No. 0-000-03-001-C, January 24, 2003)

USAID needs to record mission activities using the standard general ledger at the transaction level to support financial reporting and meet FFMIA requirements. USAID plans to convert all of its accounting stations to its new core financial system by the Spring of 2006. The OIG will continue to monitor USAID's progress in deploying its core financial system overseas.

This report is intended solely for the information and use of the management of USAID, OMB and Congress, and is not intended to be and should not be used by anyone other than those specified parties.

Office of Inspector General

USAID, Office of Inspector General
November 15, 2004

Evaluation of Management Comments

We have received USAID's management comments to the findings and recommendations included in our draft report. USAID management agreed with the material weakness and the reportable conditions. USAID management noted that they were extremely pleased that the OIG was able to issue unqualified opinions on all of USAID's principal financial statements. USAID management also stated they were pleased that the draft report fairly presented their progress and remaining challenges. We have evaluated USAID management comments on the recommendations and have reached management decisions on all five recommendations. The following is a brief summary of USAID's management comments on each of the five recommendations included in this report and our evaluation of those comments.

Recommendation No. 1

USAID management agreed with Recommendation No. 1 and commented that they will agree to work with other responsible offices to implement this recommendation. USAID management has set a target completion date of September 30, 2005. We agree with the management decision on this recommendation and will review USAID's implementation of this recommendation in our FY 2005 GMRA audit.

Recommendation No. 2

USAID management agreed with Recommendation Nos. 2.1 and 2.2 and noted that they will agree to work with the Office of Policy and Program Coordination to implement this recommendation. USAID management has set a target completion date of September 30, 2005. We agree with the management decision on this recommendation and will review USAID's implementation of this recommendation in our FY 2005 GMRA audit.

Recommendation No. 3

USAID management agreed with Recommendation No. 3 and stated they will agree to implement and continue to engage overseas staff in this process. USAID management has set a target completion date of September 30, 2005. We agree with the management decision on this recommendation and will continue to monitor the development and attainment of specific written desk procedures in our FY 2005 GMRA audit.

Recommendation No. 4

USAID management agreed with Recommendation No. 4. USAID management has set a target completion date of September 30, 2005. We agree with the management decision on this recommendation. We will monitor the quarterly intragovernmental reconciliations and ensure the requirements of the Federal Intragovernmental Transactions Accounting Polices Guide are achieved in our FY 2005 GMRA audit.

Recommendation No. 5

USAID management agreed with Recommendation No. 5 and has set a target completion date of September 30, 2005. We agree with the management decision on this recommendation. In our FY 2005 GMRA audit, we will monitor USAID's progress in compliance with Section 620(q) of the Foreign Assistance Act.

See **Appendix II** for USAID's management comments.

Appendix I

Scope and Methodology

USAID management is responsible for (1) preparing the financial statements in accordance with generally accepted accounting principles, (2) establishing, maintaining and assessing internal control to provide reasonable assurance that the broad control objectives of the Federal Managers' Financial Integrity Act are met, (3) ensuring that USAID's financial management systems substantially comply with FFMIA requirements, and (4) complying with applicable laws and regulations.

The Office of Inspector General is responsible for obtaining reasonable assurance about whether the financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The Office of Inspector General is also responsible for (1) obtaining a sufficient understanding of internal control over financial reporting and compliance to plan the audit (2) testing whether USAID's financial management systems substantially comply with the three FFMIA requirements, (3) testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements and laws for which OMB audit guidance requires testing, and (4) performing limited procedures with respect to certain other information appearing in the Accountability Report.

In order to fulfill these responsibilities, we (1) examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements, (2) assessed the accounting principles used and significant estimates made by management, (3) evaluated the overall presentation of the financial statements, (4) obtained an understanding of internal control related to financial reporting (including safeguarding assets), compliance with laws and regulations (including execution of transactions in accordance with budget authority), and performance measures reported in Management's Discussion and Analysis of the Accountability Report, (5) tested relevant internal controls over financial reporting and compliance, and evaluated the design and operating effectiveness of internal controls, (6) considered the process for evaluating and reporting on internal control and financial management systems under the Federal Managers' Financial Integrity Act, (7) tested whether USAID's financial management systems substantially complied with the three FFMIA requirements, and (8) tested USAID's compliance with selected provisions of the following laws and regulations:

- Anti-Deficiency Act
- Improper Payments Act
- Prompt Payment Act
- Debt Collection and Improvement Act
- Federal Credit Reform Act.
- OMB Bulletin 01-09
- Foreign Assistance Act of 1961

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We did not evaluate all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to controls over financial reporting and compliance. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may occur and not be detected. We also caution that projecting our evaluation to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate. In addition, we caution that our internal control testing may not be sufficient for other purposes.

We did not test compliance with all laws and regulations applicable to USAID. We limited our tests of compliance to those laws and regulations required by OMB audit guidance that we deemed applicable to the financial statements for the fiscal years ended September 30, 2004 and 2003. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

With respect to the Management's Discussion and Analysis (MD&A), we did not perform an audit. However, we gained an understanding of USAID's system of collecting and reporting performance information. We did not assess the quality of the performance indicators and performed only limited tests to assess the controls established by USAID. Based on our limited tests of the measurement and presentation of performance results reported in the MD&A, we identified certain weaknesses that, in our judgment, affected USAID's portrayal of performance results as required by prescribed guidelines. We conducted a limited review of the internal controls related to the existence and completeness assertions relevant to the performance measures included in the MD&A.

In forming our opinion, the OIG considered potential aggregate errors exceeding $309 million for any individual statement to be material to the presentation of the overall financial statements.

USAID Management Comments **Appendix II**

November 12, 2004

MEMORANDUM

TO: AIG/A, Bruce N. Crandlemire

FROM: CFO, Lisa D. Fiely Lisa D. Fiely

SUBJECT: Management Response to Draft Independent Auditor's Report on USAID's Financial Statements for Fiscal Years 2004 and 2003 (Report No. 0-000-05-001-C)

Fiscal year 2004 was another significant year for federal financial management at USAID. We are pleased that your draft report so fairly presents both our progress and our remaining challenges. We are extremely pleased that you are able to issue unqualified opinions on all of USAID's five principal financial statements. We wish to recognize the OIG's dedication and cooperation throughout the audit process, and the excellent counsel and support the auditors provided to us. We also appreciate your acknowledgement of the improvements that we have made throughout the year to improve financial systems and processes.

Following are our management decisions regarding the proposed audit recommendations:

Material Weakness: USAID's Process for Reviewing and Reporting its Quarterly Accrued Expenditures and Accounts Payable Needs Improvement.

Recommendation 1: We recommend that USAID's Chief Financial Officer update USAID's Cognizant Technical Officer training course and Financial Management Overview training course to include sessions on developing and supporting quarterly accrual estimates. The training should include information on supporting documentation, and on developing estimates in the absence of timely disbursement data necessary to develop accurate accruals.

Management Decision: We agree to work with other responsible offices to implement this recommendation. Target completion date is September 30, 2005.

Reportable Condition: Certification Process for Mapping Strategic Objectives to Performance Goals Needs Improvement (Previously Reported as a Material Weakness).

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Recommendation No 2: We recommend that the USAID Chief Financial Officer, in coordination with the Assistant Administrator of the Bureau for Policy and Program Coordination:

2.1 Ensure that annual certifications of strategic objectives to Agency goals, which are made when information from the Annual Reports Database is finalized, are conducted consistently by all USAID operating units.

2.2 Include all active strategic objectives expending funds in the Annual Reports Database.

Management Decision: We agree to work with PPC to implement these recommendations. Target completion date is September 30, 2005.

USAID's Process for Reconciling its Fund Balance with the U.S. Treasury Needs Improvement (Repeat Finding).

Recommendation 3: We recommend that USAID's Chief Financial Officer require its Office of Financial Management to develop and implement specific written desk procedures requiring documenting and reporting processes for the narratives of: (1) conditions of reconciling items and (2) unreconciled conditions of fund balance accounts, for the reconciliation of the fund balance with Treasury that incorporate and enhance existing USAID and federal guidance.

Management Decision: We agree to implement recommendation 3 and will continue to engage overseas staff in this process. Target completion date is September 30, 2005.

Reportable Condition: USAID's Intragovernmental Reconciliation Process Needs Improvement.

Recommendation 4: We recommend that USAID's Chief Financial Officer direct its Financial Management Office to conduct quarterly intragovernmental reconciliations of activity and balances with its trading partners, in accordance with the requirements of the *Federal Intragovernmental Transactions Accounting Policies Guide*, issued by the Department of Treasury's Financial Management Service.

Management Decision: We agree to implement recommendation 4. Target completion date is September 30, 2005.

Noncompliance Other than FFMIA: 620(q)/Brooke Amendment Report not Functioning as a Proper Notice

Recommendation 5: We recommend that USAID's Chief Financial Officer update written procedures related to the preparation of the 620(q)/Brooke Amendment Violation Report; the monitoring of non-rescheduled loans for countries under rescheduling; and the receipt of loan delinquency reports from its loan servicing agent.

Management Decision: We agree to implement recommendation 5. Target completion date is September 30, 2005.

In closing, I would like to restate USAID's commitment to continual improvement in financial management. That commitment permeates throughout the Agency. We will continue the improvements made in the last few years as we work further to develop and implement the fundamental long-term solutions needed to address the internal control weaknesses cited in your report. Both the OIG and USAID management recognize that it is only through implementation of our financial system worldwide that we will be able to overcome many of the weaknesses cited in your audit report.

Appendix III

Status of Uncorrected Findings and Recommendations from Prior Audits That Affect the Current Audit Objectives

Office of Management and Budget (OMB) Circular A-50 states that a management decision on audit recommendations shall be made within a maximum of six months after a final report is issued. Corrective action should proceed as rapidly as possible. The following audit recommendations directed to USAID either have not been corrected or final action has not been completed as of September 30, 2004. We have also noted where final action was taken subsequent to fiscal year-end but prior to the date of this report.

Report on USAID's Financial Statements, Internal Controls, and Compliance for Fiscal Year 1998
Audit Report No. 0-000-99-001-F, March 1, 1999

<u>Recommendation No. 1:</u> Because the Chief Financial Officer lacks the authority called for in the CFO Act, we recommend that the Chief Financial Officer collaborate with the Assistant Administrator for Management, Chief Information Officer, and Bureau for Policy and Program Coordination to:

1.1 Determine the specific responsibility, authority, and resources needed to meet the requirements of the Chief Financial Officers Act of 1990, which assigns the Chief Financial Officer responsibility to: (1) develop and maintain an integrated accounting and financial management system that meets federal financial system requirements, federal accounting standards, and the U.S. Standard General Ledger at the transaction level; (2) approve and manage financial management system design and enhancement projects; and (3) develop a financial management system that provides for systematic measurement of performance.

Recommendation is pending final action by USAID.

Report on USAID'S Consolidated Financial Statements, Internal Controls and Compliance for Fiscal-Year 2002
Audit Report No. 0-000-03-001-C, January 24, 2003

<u>Recommendation No. 2:</u> We recommend that the Chief Financial Officer:

2.2 Reconcile the mission adjustment account in the general ledger to the cumulative amounts in the mission ledgers and resolve differences between the general ledger and the mission ledgers.

Recommendation is pending final action by USAID.

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Management Challenges Identified by the Inspector General

OFFICE OF INSPECTOR GENERAL

NOV - 8 2004

MEMORANDUM

TO: A/AID, Andrew S. Natsios

FROM: Acting IG, James R. Ebbitt

SUBJECT: USAID's Most Serious Management and Performance Challenges

The Report Consolidation Act of 2000 (Public Law 106-531) states that agency accountability reports shall include a statement prepared by each agency's inspector general that summarizes the most serious management and performance challenges facing the agency and briefly assesses the agency's progress in addressing those challenges. Our statement for inclusion in USAID's FY 2004 Performance and Accountability Report is attached. If you have any questions or wish to discuss this document, I would be happy to meet with you.

Attachment: a/s

cc: PPC, Dave Simpson

1300 PENNSYLVANIA AVENUE, NW
WASHINGTON, DC 20523

USAID Office of Inspector General Statement on USAID's Most Serious Management and Performance Challenges

In pursuit of its mission, USAID faces serious management and performance challenges in the areas of:

- Financial Management
- Information Resource Management
- Managing for Results
- Acquisition and Assistance Management
- Human Capital Management

Financial Management

The OIG expects to issue unqualified opinions on USAID's fiscal year 2004 financial statements. This is the second year that USAID will receive unqualified opinions on its financial statements. Notwithstanding these unqualified opinions and the progress that USAID has made in strengthening its financial management processes, several financial management challenges need to be addressed. These challenges include:

- Reporting expenses associated with USAID goals.
- Estimating accrued expenditures.
- Recognizing and reporting accounts receivable.
- Reconciling financial management information.

Reporting Expenses Associated with USAID Goals

USAID has made progress in ensuring the accuracy of its Statement of Net Costs, which presents program costs for each of USAID's goals. To better ensure the accuracy of the Statement of Net Costs, USAID implemented procedures for obtaining annual certifications from responsible officers indicating that strategic objectives established by individual USAID operating units have been properly assigned to appropriate performance goals. (This is necessary so that expenses incurred under strategic objectives will be reported under the correct USAID goal.) USAID has also issued guidance requiring that all strategic objectives established by USAID operating units must link to one principal goal, one principal objective, and one pillar as defined in USAID's most current strategic plan.

However, USAID initially did not request certifications for all strategic objectives because the database it used to request certifications did not include all strategic objectives with expenditures during FY 2004. (When this problem was discovered by the OIG, however, USAID requested certifications for all strategic objectives with expenditures.) In addition, some certifications were documented through e-mails rather than signed statements.

Estimating Accrued Expenditures

During FY 2004, USAID established a process to compile, monitor, and review quarterly analytical information on the number and amount of accruals certified in the Accrual Reporting System at the individual USAID/Washington Bureau level. USAID also established procedures for validating selected quarterly accrual amounts and for evaluating the reliability of the Accrual Reporting System. In addition, for its overseas locations, USAID improved its estimation process, its coordination between financial and program staff, and its retention of supporting documentation.

During the FY 2004 financial statement audit, the OIG identified cases where accrual estimates were not supported or were calculated incorrectly.

Recognizing and Reporting Accounts Receivable

USAID has taken steps to establish policies and procedures to account for worldwide accounts receivable. However, USAID does not have an integrated financial management system that would facilitate the recognition of accounts receivable when amounts become due to USAID. Instead, USAID relies on a separate data collection tool to gather information on accounts receivable at year end to facilitate preparation of USAID's financial statements.

Reconciling Financial Management Information

USAID has made progress in reconciling its fund balance with the U.S. Treasury by establishing a Cash Reconciliation Working Group. This group is focusing its attention on (1) consistently performing monthly and cumulative reconciliation processes, (2) developing methods to monitor unreconciled items, and (3) developing clear instructions and procedures for processing reconciling items. In addition, USAID has developed some guidance that will help USAID accounting stations avoid certain timing differences and other conditions that produce unreconciled items. Nevertheless, USAID continues to record significant unsupported adjustments to its year-end balance with Treasury to bring this amount into agreement with the Department of Treasury's accounts.

USAID also needs to reconcile significant differences with its Federal trading partners. As of September 30, 2004, the Department of Treasury's Financial Management Service reported $10.4 billion in unreconciled differences between amounts reported by USAID and other Federal agencies.

<u>Information Resource Management</u>

Within the area of information resource management, the OIG has identified two challenges: (1) information resource management processes and (2) computer security.

<u>Information Resource Management Processes</u>

The OIG and other organizations have identified organizational and management deficiencies in USAID's information resource management processes. Although USAID has made progress in improving these processes, it needs to continue its efforts in this area. For example, USAID has established a Program Management Office to provide performance-based and results-based management of information resources. However, the office is not yet fully staffed. As another example, the OIG recently reviewed pilot testing of the Phoenix accounting system at USAID/Egypt and concluded that the success of the pilot was due to exceptional efforts by USAID/Egypt rather than mature, repeatable management processes.

<u>Improving Computer Security</u>

USAID has taken some actions to improve its computer security. For example, it has:

- Continued to perform monthly scans of all devices on USAID's network for vulnerabilities and to report the results to responsible security personnel.

- Centrally managed the Windows 2000 domain servers, firewalls, and virus scan software.

- Implemented a network appliance sensor that will give USAID the capability to view what devices are being used on the network, record how those devices are being used, and detect intrusions and vulnerabilities.
- Implemented a process to assess information systems security for the purchase of capital assets.
- Certified and accredited for operation its General Support System.

However, the OIG determined that USAID continues to have computer security weaknesses. For example, USAID did not always:

- Keep logs of security violations for USAID's Acquisition and Assistance system.
- Limit unsuccessful log-on attempts to three.
- Terminate user accounts after employees left USAID.
- Configure systems to eliminate high-risk vulnerabilities.
- Use strong passwords.
- Implement effective controls over dial-up access to its systems.

Although USAID developed an information security training program, all key information security employees did not obtain the needed training. Further, under the current organizational structure, USAID's Information Systems Security Officer did not have the authority to enforce training requirements.

<u>Managing for Results</u>

The Government Performance and Results Act of 1993 requires that Federal agencies establish strategic and annual plans, set annual targets, track progress, and measure results. In addition, government-wide initiatives, such as the President's Management Agenda, require that agencies link performance results to budgets and human capital requirements.

A significant element of USAID's performance management system is the Annual Report prepared by each of its operating units. These reports provide information on the results attained with USAID resources, request additional resources, and explain the use of, and results expected from, these additional resources. Information in these unit-level Annual Reports is consolidated to present a USAID-wide picture of achievements in USAID's annual Performance and Accountability Report.

The OIG continues to monitor USAID's progress in improving its performance management system. While USAID has made improvements, more remains to be done. Based on a limited review of USAID's system to collect and report performance information in the draft Management Discussion and Analysis for FY 2004, the OIG identified the following major weaknesses:

- USAID's current system does not allow the reporting of Agency-wide performance results for the current year. Certain performance information for FY 2004 indicating the extent to which programs were achieving their objectives is based on results achieved in FY 2003. For example, Section 1.6 "Most Important Results and Continuing Challenges" does not provide targets to compare the results against and that these results, while though predominantly for FY 2004, include FY 2003 results as well. Therefore, Section 1.6 of the Management Discussion and Analysis for FY 2004 does not provide a clear picture of planned and actual performance for fiscal year 2004 and adequately reflect the actual costs for the current fiscal year.

- The preliminary performance results that are reported for FY 2004 - and are compared to FY 2004 targets - are estimates made by USAID management. These estimated results, which are reported in Section 1.7 of the Management Discussion and Analysis, exactly match each of USAID's FY 2004 performance targets. While OMB Circular No. A-11 (2004) does allow Agencies to estimate performance information when the actual performance information may not be available or may be incomplete or preliminary, it does not appear reasonable to estimate that USAID will be able to accomplish each of the FY 2004 performance targets to the exact amount or quantity stated in each target.

On a more positive note, the OIG noted that the draft Management Discussion and Analysis for FY 2004 uses USAID's New Strategic Planning Framework and Goal Structure – Joint USAID/State Strategic Plan – between the State Department and USAID. The new framework is designed to represent a more coherent, concise and logical reflection of how the Department and USAID organize their work towards given results/outcomes.

Acquisition and Assistance Management

USAID achieves development results largely through intermediaries: contractors or recipients of grants or cooperative agreements. Efficient and effective acquisition and assistance systems are therefore critical.

As part of its strategic plan, the OIG has adopted a strategic objective of contributing to the improvement of USAID's processes for awarding and administering contracts, grants, and cooperative agreements. The OIG has developed multi-year strategies to promote increased efficiency and effectiveness in USAID procurement processes.

Within the framework of a multi-year audit plan, the OIG defined "standards for success" for critical acquisition and award processes. Audit plans have been developed to identify the Office of Acquisition and Assistance's status in achieving these standards and the steps needed for further improvement.

The OIG recently examined whether the task-ordering process carried out by mission directors affected USAID's ability to meet the goals established by the Small Business Administration. The audit concluded that USAID had excluded mission task orders from its small and disadvantaged business program.

In another audit, the OIG reviewed how USAID missions established staffing requirements for U.S. personal services contractors (USPSCs) and whether they awarded U.S. personal services contracts in accordance with selected USAID policies and procedures. This audit report, summarizing the results of audits at eight USAID missions, showed that USAID missions had determined their USPSC staffing requirements in accordance with USAID policies and procedures. Additionally - with only isolated exceptions - USAID missions had awarded their U.S. personal services contracts in accordance with selected USAID policies and procedures. However, the audit concluded that USAID's policies on USPSC contract extensions and renewals needed additional clarification for consistency in application at all USAID missions.

Human Capital Management

Management of a diverse and widespread workforce impacts on the ability of USAID to carry out its mission. Accordingly, USAID has undertaken a major effort to improve and restructure its human capital management. The Office of Management and Budget (OMB) and the Office of Personnel Management have consistently rated USAID's progress in fiscal year 2004 as satisfactory (green light). More remains to be done, as is reflected by USAID's unsatisfactory rating (red light) for its status in the area of human capital management. Most importantly, USAID needs to complete its comprehensive workforce analysis and workforce planning initiative, implement the resulting strategies to close or eliminate the identified mission-critical skill gaps, and make progress towards closing those gaps.

Other Reporting Requirements

Financial Management Goals and Strategies

The implementation of the new core financial system directly supports three of the five initiatives of the President's Management Agenda (PMA) as follows:

Improved Financial Performance: USAID's financial management system, Phoenix, is a JFMIP-compliant financial system, which meets federal accounting standards. Phoenix helps the Agency meet reporting requirements, provides accurate and timely financial information, supports management operations, and provides controls to prevent Anti-Deficiency Act violations. Phoenix also has a Standard General Ledger (SGL) chart of accounts and financial transactions on Phoenix are posted immediately to a general ledger. Implementing Phoenix worldwide will remove the major obstacle to achieving Federal Financial Management Improvement Act (FFMIA) compliance and "getting to green", since the Mission Accounting and Control System (MACS) does not have a SGL. In the interim, USAID will continue its efforts to meet or exceed other milestones for this PMA initiative.

USAID employees in Peru receive Phoenix training.

Expanded Electronic Government: Phoenix supports the e-government initiative because it is a web-based system that can be accessed by field offices worldwide. The system also interfaces with other planned web-based initiatives, such as vendor self-service, cost allocation, credit card, e-procurement catalogue, and worldwide funds reconciliation.

Budget and Performance Integration: The Financial Systems Integration (FSI) project team plans to implement the cost allocation module worldwide in tandem with the rollout of the core accounting system. This will allow for assignment of direct and indirect costs to the offices that benefit from them and will provide management a tool for determining full costs at the operating unit and strategic objective (SO) level.

To provide a context for the agency's current plans and resources request, the status of financial management activities is outlined below.

- **Phoenix Pilot Missions:** On-going activities at the five Missions currently using Phoenix include on-site user support and training, refinement of reporting needs, and data migration clean-up.
- **Phoenix Overseas Deployment:** The Agency continues coordinating with Phoenix overseas and e-government initiatives with State. The Phoenix overseas deployment schedule includes targets for deployment to overseas Missions in four phases beginning in February 2005 through April 2006.
- **USAID-State Collaboration:** USAID is also collaborating with the Department of State to implement a plan to operate the USAID and State financial systems from a common platform in Charleston, South Carolina, by October 2005. The Phoenix team recently received the hardware and software required for upgrading the Phoenix system to the latest software release version.

Financial Management Performance

Phoenix has been USAID/Washington's core financial system since December 2000. Despite financial management improvements to date, USAID is still not substantially compliant with the Federal Financial Management Improvement Act (FFMIA) of 1996. The primary deficiency is that USAID's Mission Accounting and Control System (MACS), a feeder system to Phoenix, does not support a general ledger. Substantial compliance will be achieved when Phoenix, which is Joint Financial Management Improvement Program (JFMIP)-compliant and meets regulations, is fully deployed to the field to replace MACS.

In August 2004, USAID completed the first round of overseas deployment with Phoenix operational in five pilot missions. Based on the pilot experience, the Phoenix Overseas Deployment (POD) team documented "lessons learned" – what went well and what did not go as well – in eight key areas: training, user support, system functionality, data migration (the "critical path"), reports, testing, system performance, and project management and communications. A Subject Matter Expert (SME) summit is being planned to focus on improving the Phoenix configuration for mission use and to discuss "lessons learned" in view of looking for ways to repeat successes and overcome challenges.

During the pilot, we learned that we needed more time for data preparation and data cleanup. We also determined that we should not perform a bulk historical migration of data. As a result, the Phoenix Overseas Deployment (POD) team sought and received agreement to modify the project schedule and timeline to accommodate changes in the data migration approach. We are now planning to accelerate the deployment of Phoenix to the Latin America and Caribbean (LAC) region in February 2005. We will push back the upgrade to the web version to June 2005. The POD team is still working out the details for the Phoenix deployment to the Europe & Eurasia (E&E), Africa (AFR), and Asia & the Near East (ANE) regions. With adequate funding, we should have 50% of the missions online by the end of FY 2005, 75% by the end of December 2005, and 100% by April 2006. OMB and USAID expect that the complete rollout of the Phoenix system will address the remaining compliance issues that have kept the agency at red under the President's Management Agenda (PMA). Therefore, the current target date for substantial compliance with FFMIA is April 2006.

As Phoenix is rolled out to the field, there are a number of challenges. In some developing countries, there may be insufficient bandwidth or communications capacity for immediate updates from missions. In those countries, USAID is looking for ways to bypass the problem, such as storing data until lines are freed. Also, immediate knowledge of mission budgets is important to help identify overspending quickly.

Another important requirement to "getting to green" is to ensure that the Phoenix system provides timely, reliable, and complete performance data on foreign assistance programs on a consistent basis. The Phoenix Reports Team recently conducted an analysis of outstanding issues, user suggestions for enhancements, and requests for new reports. The Team's primary focus is to make improvements to the existing reports. They have also identified what appear to be the highest priority new reports and will begin to specify detailed requirements for this group of reports.

Impediments to "getting to green" include competing priorities and potential funding issues related to deploying Phoenix to the remaining overseas missions; providing ongoing support to the missions that already converted from MACS to Phoenix; upgrading to the new software version of Phoenix; collaborating with the State Department to achieve a common infrastructure and financial platform and to have State host Phoenix in Charleston, S.C.; and coordinating with the Procurement System Improvement Project (PSIP) team deploying the new web-based acquisition and assistance system.

Approaches for obtaining clean audit opinions and for ensuring continued favorable opinions include maintaining and improving procedures and systems in place to enhance system capabilities, closing material weaknesses, and closing open audit recommendations. To develop and maintain relevant and timely reporting practices, including financial performance measures and accelerated year-end financial statement reporting, USAID has established a number of teams such as the PAR core team, the Financial Systems Integration (FSI) team, the Phoenix Reports team, the Accrual Reporting System (ARS) team, the Bureau Transition Coordinators (BTC) team, the Quick Hit Deobligation Follow-up team, and the Audit Management Team. There are also a number of working groups overseas led by the Chief Accountants and Controllers. These teams and working groups meet regularly and communicate with each other by sharing information via ad hoc meetings, email distribution lists, newsletters, and other media.

Financial Management Systems Framework

When USAID implemented Phoenix in December 2000, it became the Agency's core financial management system and the cornerstone of its integrated financial management system. During 2001, USAID integrated Phoenix with significant legacy and third party systems that provide transaction processing services. USAID plans to modernize its business systems worldwide through the expansion of the Agency's core accounting system to overseas Missions. The overseas deployment of a web-based and integrated financial management system will provide a common Agency-wide system for budget execution, accounting, and financial management. Using e-business technologies provides a tool for Mission personnel to manage financial transactions and program performance.

Based on the recommendations from a joint Department of State-USAID study, a blueprint for collaboration efforts has been established and a plan to operate from a common infrastructure and software version is in place. The intent is to operate the USAID and State systems from State's Charleston, South Carolina, facility. The major USAID systems and their relationships are discussed below.

Phoenix: Phoenix is the Agency's core financial system. Phoenix will replace MACS overseas. The Phoenix application modules include accounts payable, accounts receivable, automated disbursements, budget execution, cost allocation, general ledger, business planning, project cost accounting, and purchasing.

New Management System (NMS): The NMS was originally an integrated suite of custom-built financial and mixed-financial applications. The implementation of Phoenix enabled USAID to suspend three of the four NMS applications. The *Acquisition and Assistance (A&A)* application continues to support Washington's procurement operations and it is interfaced with Phoenix.

Mission Accounting and Control System (MACS): MACS is an over 20-year old custom-built system for overseas financial operations. It is installed at 38 accounting stations overseas and supports basic accounting and control functions. MACS alone is not substantially compliant with federal financial requirements and the SGL at the transaction level. MACS does not support the Agency's accounting classification structure (ACS). A MACS Auxiliary Ledger (MAL) was implemented in 2001 to capture overseas financial transactions for posting in the Phoenix general ledger. The MAL provides a crosswalk between overseas accounting elements and the Agency's ACS. The MAL enables the Agency to provide timely, accurate and useful external and internal financial reports on overseas programs and operations. The related MACS Voucher Tracking System (MACSTRAX) automates voucher management and payment scheduling. MACS is being phased out as Phoenix is brought on-line in overseas Missions.

Business Support Services: The chief business support applications in the Agency's financial management systems inventory relate to travel management and property management:

- **Travel Manager:** The GELCO commercial software product, Travel Manager, is currently used in Washington and in Missions to provide travel management support. It is used either as a standalone application or operating as a shared application over a local area network. Travel

Manager does not have an electronic interface with any Agency financial systems. It is being replaced with a standard e-travel application that will be interfaced with Phoenix.

- **Non-Expendable Property (NXP):** The NXP program is USAID's custom-developed property management system. It is currently in use at many Missions around the world, but is planned for replacement. It was implemented in 1989 and is not compliant with JFMIP requirements for a property management system. NXP does not have an electronic interface with any Agency financial system.
- **BAR/SCAN:** USAID currently uses the commercial software product, BAR/SCAN, for property management of non-expendable property in Washington. BAR/SCAN is being implemented at field Missions. BAR/SCAN does not have an electronic interface with any Agency financial systems.

Third-Party Service Providers: As part of its long-term information management strategy, USAID has cross-serviced with other Government agencies or outsourced to commercial organizations some of its financial transaction processing requirements. This reflects an overall strategy of the Agency and is consistent with OMB guidance. The chief third-party service providers include:

- **Department of Agriculture National Finance Center (NFC):** USAID has a cross-serving agreement with NFC for personnel and payroll processes for US direct hire (USDH) employees. USAID accesses the NFC systems to maintain personnel records, process employee time and attendance data, and transact payroll services. The NFC payroll system is manually interfaced with Phoenix.
- **Riggs National Bank:** USAID has outsourced standard credit reform transactions to Riggs National Bank. The Riggs Loan Management System provides services to the Agency for collections, disbursements, claims, and year-end accruals. The Riggs system has an automated interface to Phoenix.
- **Department of Health and Human Services (DHHS):** USAID has cross-serviced its letter of credit (LOC) processing of grantee advances and liquidations to the DHHS Payment Management System. The DHHS system has an automated interface to Phoenix.

Other Baseline Financial Management Systems:

- **Mission Personal Services Contractor (PSC) Personnel and Payroll Systems:** USAID Missions currently use a variety of systems to manage and pay PSC personnel. These range from spreadsheets to custom-built applications and databases to commercial off-the-shelf packages. Typically, U.S. citizen PSC employees and Foreign Service National (FSN) PSC employees are managed and paid through different systems. Some Missions obtain FSN payroll services from the U.S. Department of State's Financial Service Center (FSC) in Charleston, South Carolina.
- **Mission Procurement Information Collection System (MPICS):** Pending the fielding of an Agency-wide procurement system, a manual procurement process is used in the Missions. MPICS is the data entry mechanism for USAID field Missions to enter their past and current award data into a single Washington database for reporting purposes.
- **ProDoc and RegSearch:** These procurement support systems have been deployed in Washington and the Missions to generate solicitations and awards as well as improve procurement reporting.
- **Ariba:** USAID piloted a third-party software product for e-procurement called Ariba in four of its offices. The pilot was very successful and now awaits funding for implementation Agency-wide. Ariba is currently in production and has processed thousands of small purchase transactions. It is fully integrated with Phoenix.

Target Financial Management Systems Structure

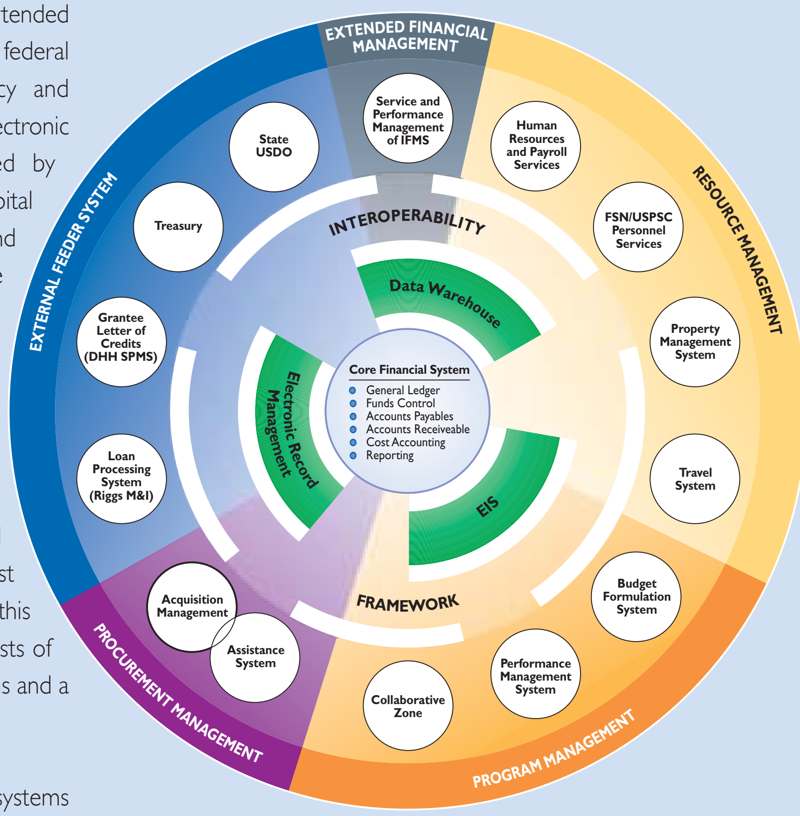
The primary goal of financial management system modernization at USAID is a single, integrated financial management system (IFMS). The IFMS architecture is intended to support the mission of the Agency, comply with federal requirements and standards, improve the efficiency and effectiveness of Agency operations, and deliver electronic government solutions. The goal will be achieved by adherence to the disciplines of architecture planning, capital investment planning, business process re-engineering, and systems engineering. This will ensure that plans are business-focused rather than technology-driven, results-oriented rather than process-driven, and developed by business managers rather than technology specialists alone.

USAID has made transformation of the Agency to a world class, 21st century international development and humanitarian assistance organization, one of its highest priorities. Management reform is a key element of this transformation. Specifically, the vision for USAID consists of a new direction in modernizing Agency business systems and a comprehensive business transformation agenda.

USAID senior managers will lead this business systems transformation in a three-staged approach. Stage one involves modernizing the Agency's business systems worldwide by standardizing and integrating processes and systems, and aligning the Agency business model with the Federal Enterprise Architecture (FEA). In stage two, the Agency will adapt business processes to anticipate and respond to changing requirements such as expanded use of federal government cross-servicing and outsourcing key administrative services.

By stage three, the Agency will deploy adaptive capabilities to the community of development and humanitarian assistance providers. The following are examples of stage three capabilities: suppliers can electronically submit invoices; vendors can determine their expenditures via the internet; and Congress will have ready access to information related to program objectives, results, and approaches.

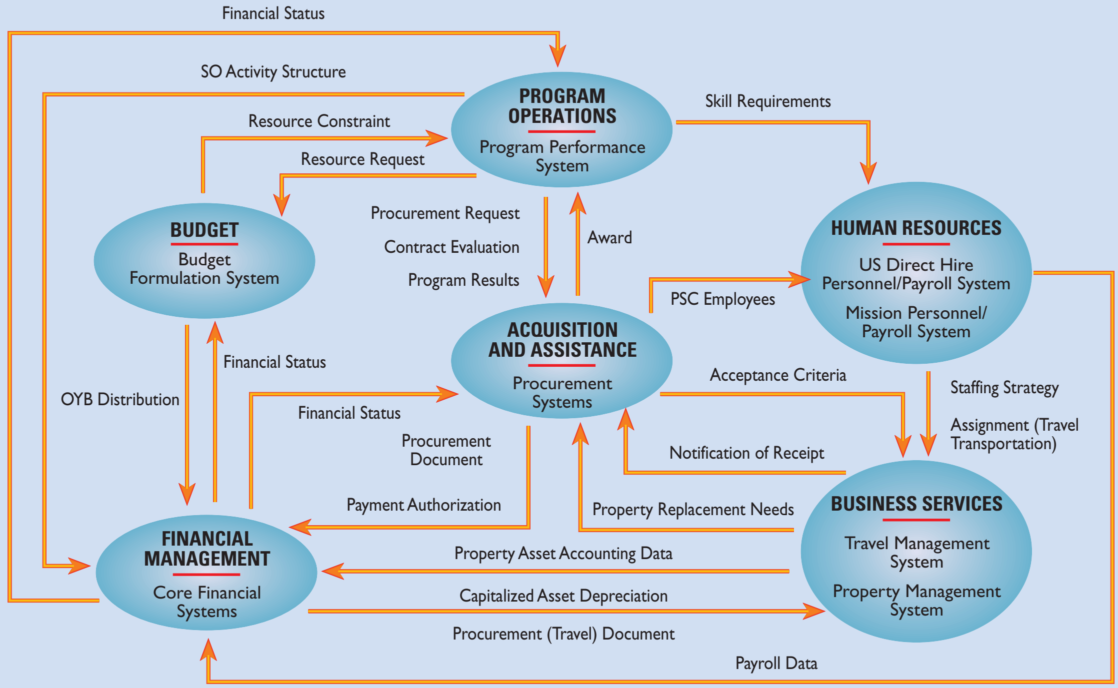
Target Integrated Financial Management System Logical Model



The target financial management system will:

- Provide complete, reliable, timely, and consistent information.
- Apply consistent internal controls to ensure the integrity and security of information and resources.
- Utilize a common data classification structure to support collection, storage, retrieval, and reporting of information.
- Provide an information portal to the Agency's financial management data resources with a similar look and feel accessible wherever USAID operates.
- Utilize an open framework and industry standards for data interchange and interoperability.
- Provide, on demand, value-added information products and services.

IFMS Logical Business Architecture



Ensure that standardized processes are utilized for similar kinds of transactions.

- Remain flexible and modifiable to business changes.
- Support timely, accurate, and cost-effective electronic exchange of information with customers and external partners.

USAID and the State Department plan to run from a common infrastructure and version of the Momentum financial application by October 2005. Both USAID and State will maintain separate financial systems. During FY 2005, the USAID and State joint planning group will continue to conduct analyses and evaluations of systems requirements to achieve the target level of cooperation.

The two agencies can expect to achieve significant savings and efficiencies by integrating infrastructure and coordinating deployment efforts. USAID and State submitted a joint business case for FY 2005 and FY 2006 that provides a general outline of the proposed integration. In 2004, they conducted a study to determine the requirements, and in 2005, will conduct testing for mutual deployment. The interagency working group recommendations and the subsequent interagency agreements will dictate the future planning and acquisition strategy for USAID's financial systems in Washington, as well as overseas.

To achieve this vision, the data, systems, services, and technical infrastructure will be engineered, configured, and optimized to operate in an integrated fashion to deliver Agency-wide financial management support. This target financial management system architecture will be implemented in a modular fashion, and is guided by and is consistent with the Agency's target enterprise information architecture. .

Overseas deployment plans detail a centralized architecture to allow easier maintenance, security, and operational efficiency. To provide around the clock support required for mission operations, the telecommunications and technical architecture will be upgraded. The specific configuration will be determined as overseas rollout plans are developed. The infrastructure business cases detail the telecommunications upgrades.

The business functions of the Agency will increasingly be supported by a combination of commercial software products and third party service providers. Public sector and private sector third party service providers will provide essential feeder systems to the Agency's core financial system. The increasing reliance of foreign affairs agencies on shared telecommunications infrastructure, co-located facilities overseas, and common financial transaction processing services may suggest alternative implementation strategies for the IFMS. An interoperability framework consisting of policies, standards, practices, hardware, and software will enable the Agency to more effectively utilize commercial software products and third party service providers to develop the IFMS as both technologies and service providers evolve.

Financial Management Systems Strategy

USAID's Business Systems Modernization (BSM) strategy consists of business cases for the Agency Enterprise Architecture, financial systems, and procurement systems. This strategy is consistent with the most urgent priorities set by the Administrator. The Agency's proposed enhancements and new projects will result in greater internal efficiency and effectiveness; and expanded government to government, government to consumer, and government to business interactions. The components of the BSM are:

- Maintaining the following steady state areas: financial systems, IT infrastructure, and existing "as is" architecture.
- Implementing the following enhancements and new projects: upgrade and extend the enterprise architecture to provide a framework and strategy for modernization; enhance the overseas telecommunications and security environments to support new systems; implement the core accounting and managerial cost accounting systems worldwide; and implement a procurement system that is an integrated module of the core accounting system.

The essential elements of the general strategy include:

- Utilize public and private sector third party service providers whenever cost-effective.
- Require solution demonstrations to manage risks and engineer system components within the target enterprise architecture framework.
- Acquire proven commercial software products rather than build custom-developed applications.
- Re-engineer Agency business processes before altering the baseline commercial software product.
- Implement network and telecommunication infrastructure upgrades to support the financial management systems architecture.
- Leverage the system architecture and the planned technology evolution of commercial software products.
- Integrate data repositories using common data elements and web-based reporting and analytical tools.
- Acquire system components in an incremental fashion.
- Plan enhancements to system capabilities as releases within the framework of enterprise configuration management practices.

Planned Major System Investments

Implementing the target financial management system structure will take several more years. The required major system investments will be identified, planned, and sequenced as part of a business transformation initiative that began in 2002 and will extend into 2006. Specific projects will be selected on the merit of each business case. The broad categories of system investment will include:

- Core Financial System
- Procurement System
- Budget Formulation System
- Data Repositories and Reporting Systems
- Executive Information Systems
  - Business Support Systems
  - Third Party Service Providers

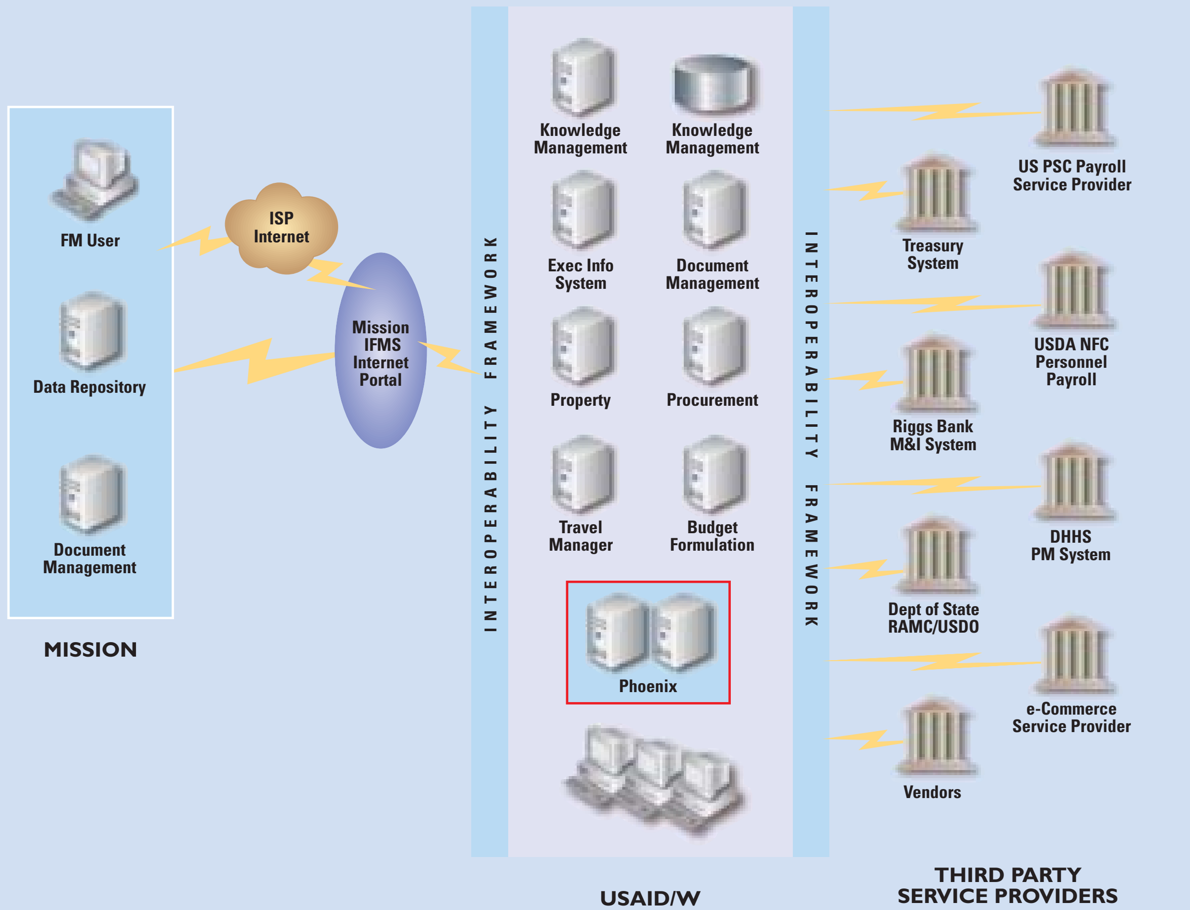
Core Financial System: Phoenix's underlying Momentum Financial product line will be upgraded through successive product releases to ensure sustained compliance with changing federal requirements and the evolution of technology in the commercial marketplace. Key among these expected enhancements will be support for electronic government initiatives and internet-based access to Phoenix, including enhancements to telecommunications capacity within country. Missions will access centralized financial systems based in Washington to record financial transactions and obtain financial information to support decision-making and resource management. An Agency-wide concept of operation will optimize business processes, systems, and workflow to achieve improved efficiency and effectiveness. Phoenix will be integrated with multiple feeder systems utilizing industry standards and proven software integration tools to achieve Agency and government-wide goals in electronic government.

Procurement Service: The USAID capital investment in an Agency-wide acquisition and assistance system is referred to as the Procurement System Improvement Project (PSIP). The new procurement system is designed to replace the New Management System (NMS) legacy system for Acquisition and Assistance (A&A), which is used only at USAID/Washington. However, more than half of the Agency's procurement transactions are conducted overseas. The field contracting staff operates in a paper- dependent process without a comprehensive contract management system to support planning, collaboration, tracking, and administering contract and grant awards. PSIP plans call for a commercial-off-the-shelf (COTS) procurement system that will reduce procurement transaction cycle time, accelerate the delivery of foreign assistance where it is needed, and produce more timely and accurate business information. An accelerated schedule for a worldwide procurement system has been developed primarily to 1) coordinate PSIP deployment activities with the deployment of the USAID/Department of State joint financial management system (JFMS) and procurement and grants functionality with State Department's Integrated Logistics Management System (ILMS), and 2) meet the demands of supporting the Presidential initiative for HIV/AIDS and increased reconstruction activity in Iraq and Afghanistan.

Budget Formulation System: USAID will implement a set of tools and standard business processes to improve Agency-wide budget planning, formulation, consolidation, submission, and integration with Phoenix. USAID's budget formulation and execution processes will be integrated with its program and performance management processes for collecting information on the performance of Agency programs.

Data Repositories and Reporting Systems: Third party feeder systems generate data that is stored in data repositories to support data reconciliation, audits, ad hoc queries, and reporting requirements. Other financial management systems capture data that will not be electronically exchanged with other systems and will need data repositories to facilitate integrated reporting. USAID will implement an enterprise-wide "data-mart" strategy to link multiple data repositories using common data elements. Web-based reporting tools will be used to extract, consolidate, and generate reports tailored to managers' needs across systems and data repositories.

Target Financial Management System Architecture



Executive Information Systems: USAID is committed to creating timely, accurate, useable, and meaningful summary reports of financial data and program effectiveness. Efforts are underway to develop an Agency-wide Executive Information System (EIS). The first phase of development will pull information and data from Phoenix and MAL and provide integrated reports on key financial measures. Subsequent phases will pull data from additional applications within the Agency to allow for more detailed program measurement and analysis. The idea is to generate reports that will facilitate decision-making for allocating funds and determining the effectiveness of operating year budget program implementation management. The EIS will also be used to provide summary reports to the State Department, OMB, Congress, and the Administration. The development team is also evaluating a similar "dashboard" system currently in development at the State Department.

Business Support Systems: The major initiatives in the administrative service areas will be enterprise-wide deployment of the Agency's travel and property management systems. The Agency will rely on joint vendor efforts to integrate commercial software products with the AMS Momentum Financials commercial software product. Future releases of Phoenix will include these enhancements. Initiatives, such as the implementation of a Momentum product that would integrate e-travel with Phoenix, are among the options to be studied.

Third-party service providers: The Agency is expected to continue to rely on its current third-party service providers: NFC, Riggs National Bank, and DHHS, for the foreseeable future. Further improvements to electronic interfaces to achieve greater integration will be evaluated.

Grants Management

USAID's Office of Acquisition & Assistance was an active participant on the inter-agency working group that developed the grants announcement template required by OMB. An electronic format for USAID's announcements (Request for Applications) is currently being finalized in accordance with the new template.

The Agency implemented the OMB policy requirement for grant applicants to provide a Dun and Bradstreet (D&B) Data Universal Numbering System (DUNS) number when applying for any grants or cooperative agreements by issuing a policy [68 FR 38402] which requires use of a DUNS number beginning October 1, 2003, on any application for Federal grants or cooperative agreements.

On September 22, 2003, USAID sent letters to all contractors and recipients to advise them of the Central Contractor Registration/Business Partner Network (CCR/BPN) policy that would come into effect on October 1, 2003, and the requirement that they be registered with CCR/BPN in order to do business with the Agency. Subsequent reminders were sent to contractors to facilitate full compliance with the new OMB policy. A D&B number is required for the contractor to register in the CCR. USAID is also complying with the OMB policy requirement to post synopses of its funding opportunity announcements at Grants.gov, using the government-wide standard data elements for these synopses. This policy [68 FR 58146] requires a synopsis of any Federal funding opportunity to be posted at Grants.gov FIND no later than three business days after release of the full announcement.

A USAID policy directive was issued on May 13, 2003, to Agency grant officers worldwide, and was revised on January 23, 2004. This policy directive required the posting of agency assistance synopses and application opportunities to Grants.gov and required that appropriate training resources be provided for users. The Agency's policy change was implemented approximately six months prior to the actual effective date of OMB's requirement for posting to Grants.gov. Additionally, USAID participated as a pilot agency implementing this eGov initiative and remains fully operational in the posting of USAID's marketing of Request for Application (RFA) announcements.

The Agency also implemented use of the APPLY function of Grants.gov for receiving applications under the agency's discretionary grant or cooperative agreement programs. On January 7, 2004, OMB requested agency schedules to be established no later than March 1, 2004, that identify which programs will participate in Grants.gov APPLY, and when actual use of Grants.gov APPLY will begin.

The USAID E-Grants migration schedule was established to plan, track, and monitor change management procedures necessary to efficiently develop project tasks and milestones for the comprehensive project schedule. The Migration Manager has the ultimate responsibility to review, customize, and track overall progress and variance to the baseline. USAID has customized schedule materials provided by the HHS E-Grants Project Management Office (PMO) and created materials related to supplemental tasks and activities deemed necessary by the agency. During the Planning Phase, USAID reviewed materials provided by the HHS E-Grants PMO such as a project schedule template and determined specific requirements to be included for migration.

Initial testing of APPLY was successfully completed in June 2003 in Washington, DC, and one overseas location using "test data." Subsequent tests conducted on September 2, 2004, successfully launched an Agreement Officer SF424 package creation and application response in Washington, DC. Additional testing in Macedonia was scheduled to occur on September 20, 2004. USAID has signed, approved, and funded the Memorandum of Understanding with HHS for Grants.gov. USAID's Office of Acquisition & Assistance has continued to coordinate with HHS and the Integrated Acquisition Environment (IAE) PMO for guidance.

USAID currently focuses on the development of "results-oriented" grant programs that are similar to Performance-

Based Contracting. Exploration and implementation of formal regulatory guidelines and requirements for "results-oriented" assistance in all Federal assistance programs would likely increase the effectiveness, performance, coordination and accountability of grant programs government-wide.

Additionally, USAID is refining its policies regarding accounts receivable for grant programs to assist in debt collection from grantees. Development of regulatory guidance in this area may provide increased accountability of grant programs government-wide.

While expanding the scope of reporting requirements may provide increased information to the Federal agency, careful consideration must be given to the intended purpose of a grant. Grants are intended to support the recipient's program, rather than to provide a service to the government.

We do not see any current statutory impediments to USAID's compliance with the new OMB policies relating to grants streamlining and Grants.gov. However, a variety of political initiatives have the potential to impact compliance. Issues related to counter-terrorism are an example.

The USAID program portfolio for Assistance and Cooperative Agreements is estimated to be almost 50% of the Agency's procurements. As a result, grant administration accounts for approximately 50% of an Agreement Officer's workload.

Audit Management

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

The OIG contracts with the Defense Contract Audit Agency (DCAA) to audit U.S.-based contractors and relies on nonfederal auditors to audit U.S.-based grant recipients. Overseas, local auditing firms or the supreme audit institutions (SAI) of host countries audit foreign-based organizations. OIG staff conduct audits of USAID programs and operations, including the Agency's financial statements, related systems and procedures, and Agency performance in implementing programs, activities, or functions.

During FY 2004, USAID received 495 audit reports; 439 of these reports covered financial audits of contractors and recipients and 56 covered Agency programs or operations.

During FY 2004, the Agency closed 498 audit recommendations. Of these, 205 were from audits performed by OIG staff and 293 were from financial audits of contractors or grant recipients. USAID took final action on recommendations with $4.4 million in disallowed costs, and $189.7 million was put to better use during the fiscal year.

At the end of FY 2004, there were 304 open audit recommendations, 42 more than at the end of FY 2003 (262). Of the 304 audit recommendations open at the end of FY 2004, only 13 or 4.3% have been open for more than one year.

As regards the 13 recommendations open for more than one year at the end of FY 2004, USAID must collect funds from contractors or recipients to complete actions on two of these recommendations. The remaining 11 require improvements in Agency programs and operations. Most of these are tied to USAID/Nepal's internal control weaknesses related to costs incurred on child survival/family planning services; USAID's staff training and development activities; and USAID's human capital data.

Management Action on Recommendation that Funds be Put to Better Use

	Recommendations	Dollar Value ($000)
Beginning balance 10/1/03	9	$ 214,356
Management decisions during the fiscal year	11	5,377
Final action	14	189,698
Recommendations implemented	14	189,698
Recommendations not implemented	0	-
Ending Balance 9/30/04	6	$ 30,035

Management Action on Audits with Disallowed Costs

	Recommendations	Dollar Value ($000)
Beginning balance 10/1/03	92	$ 11,819
Management decisions during the fiscal year	178	7,779
Final action	169	4,367
Collections/Offsets/Other	169	4,367
Write-offs	0	-
Ending Balance 9/30/04	101	$ 15,231

Debt Management

CROSS SERVICING, PROMPT PAY, ELECTRONIC PAYMENTS

Outstanding accounts receivable have decreased over the last two years, from $7.412 million in FY 2002 to $5.263 million in FY 2004. An accounts receivable due from the public is an amount owed to the government to satisfy a debt or claim. If an individual/entity has been billed, and the debt is under appeal, that debt is also considered a receivable. An analysis of accounts receivable balances can be found in the Footnotes to the Financial Statements.

	FY 2004	FY 2003	FY 2002
Receivables Referred to the Department of Treasury for Cross-Servicing			
Number of Accounts	55	49	54
Amounts Referred (in thousands)	$ 5,263	$ 6,243	$ 7,412

USAID is required by the Prompt Payment Act to pay its bills on time or pay an interest penalty to vendors. This chart shows that USAID has reduced its late payments from 4.52% in FY 2002 to less than 1/2 % in FY 2004. In addition, we pay the vast majority of our bills by Electrionic Funds Transfer (EFT).

Timeliness of Payments	FY 2004	FY 2003	FY 2002
Interest Penalty Paid	$ 3,045.00	$ 17,825.00	$ 66,372.00
Percentage of Payments Paid Late	0.41%	1.17%	4.52%
Number of EFT Payments	21,309	20,690	21,108
Number of Check Payments	427	429	452

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Appendices

APPENDIX A - USAID Staff Listings by Type

Employment Types	Definition
USFS:	U.S. Direct Hire, Foreign Service or Senior Foreign Service
USCS:	U.S. Direct Hire Civil Service GS, GM, WG, or SES
USPS:	U.S. Personal Services Contractor
FNDH:	Foreign National Direct Hire
FNPS:	Foreign National Personal Services Contractor
TCDH:	Third Country National Direct Hire
TCPS:	Third Country National Personal Services Contractor
PASA or RSSA:	Employee detailed from another U.S. government agency on a Participating Agency Services Agreement or a Resources Support Services Agreement
JCCO:	Employee who is a member of the Joint Career Corps and is not a direct hire of USAID
IPA:	Intergovernmental Personnel Act employees
AAAS:	American Association for the Advancement of Science Fellows
TAACS:	Technical Advisors in AIDS and Child Survival
POPF:	Population Fellows or individuals funded by the Population Fellows Program
CSFP:	Child Survival Fellows individuals funded by the Child Survival Fellows Program
STRS:	Senior Technical Advisors in Residence (employees of Johns Hopkins University [STARS])
UDFP:	Urban Development Fellows
WCPL:	Western Consortium Population Leaders Fellows
DEMF:	Democracy Fellows
WIDF:	Women in Development Fellows
OTHF:	Other types of Fellows not listed above
NPSU:	U.S. Non-PSC: These are individual contractors who do not have an employer-employee relationship with USAID and there is no direct supervision by a U.S. Direct Hire employee. Also, they do not occupy U.S. government space or use U.S. government supplies. They are not institutional contractors nor people hired under a service contract.
NPSF:	Non-PSC of other nationalities. These individuals are not Americans; they have individual contracts with us but do not occupy U.S. government space nor do they use U.S. government supplies.

APPENDIX B - GDA Secretariat Partnership

One hallmark of public-private alliances is engaging nontraditional partners. USAID has partnered with nearly 700 different organizations in FY 2002 and FY 2003. These include: 215 private businesses, 179 NGOs (non-governmental organizations including faith-based organizations), 67 foundations, 61 trade associations, 11 bilateral donors, 18 multilateral donors, 75 federal or national government agencies (in the United States and host countries), 17 local government agencies, 50 higher learning institutions, and five (5) regional organizations. Many of these partners had no prior experience as a USAID implementing partner or cooperating agency.

ILLUSTRATIVE LIST BELOW

Foundation/Philanthropists

African Wildlife Foundation
Aga Khan Foundation
Agros Foundation
American Nicaraguan Foundation (ANF)
Amy Biehl Foundation Trust (ABFT)
Arthur Blank Family Foundation
AVINA Foundation
Bill & Melinda Gates Foundation
Biodiversity Trust Fund
Brown Foundation
Cafesjian Family Foundation
Case Foundation
Charles Stewart Mott Foundation
Conrad N. Hilton Foundation (CNHF)
David and Lucille Packard Foundation
Ecotourism Society of Sri Lanka
Ecumenical Church Loan Fund
Elizabeth Glaser Pediatric AIDS Foundation
Eurasia Foundation
Finca International
Ford Foundation
Foundation for Integrated Education and Development - FUNEDESIN
Foundation Hassan II
Friedrich Ebert Stiftung
Fundacion Jatun Sacha
Fundacion PUMA (Proteccion y uso sostenible del medio ambiente)
GE Fund
German Marshall Fund of the United States
Gillette Foundation
Henry J. Kaiser Family Foundation
Humane Society of the US
Huntsman Foundation
International Youth Foundation (IYF)
J.M. Kaplan Fund
Jinishian Memorial Foundation
John D. and Catherine T. MacArthur Foundation
Kellogg Foundation
Levi Strauss Foundation
Lincy Foundation
Lions Club International Foundation
Mexican Foundation for the Development of Folk Art
Multichoice Africa
National Fish and Wildlife Foundation
Norwegian Refugee Council
NOVIB
Omidyar Foundation
Open Society Institute
Overbrook Foundation
Reef Check Foundation
Ricardo Maduro Education Foundation (FEREMA)
Robert Wood Johnson Foundation

Rockefeller Foundation
Rotary International
Schwab Foundation for Social Entrepreneurship
Skoll Foundation
Soros Foundation
Starr Foundation
Surdna Foundation
Telkom Foundation
The Richard and Helen DeVos Foundation
The Vaccine Fund
The Wellcome Trust
UN Foundation (UNF)
Wallace Global Foundation
WestWind Foundation
William and Flora Hewlett Foundation
World Cocoa Foundation (WCF)

Private Businesses

A.K. Oils and Fats Ltd. (Mukano Industries)
Abbott Laboratories
ADM Cocoa
Agriflora Ltd.
AllAfrica Global Media
AlphaSmart
AMANCO
American Express
Amiran Ltd.
Andersen Corporation
Aracruz Celulose
Aveda
Aventis
A-Z Tours International
Bajaj Auto Limited (BAL)
Balzac Brothers & Co.
Barclays Bank Zambia, Ltd.
Barry-Callebaut
BASF
Bayer
Becton, Dickinson, & Co.
BioResources (Gh) Limited
Birchfield Interactive PLC
Boyd Coffee Company
British Petroleum (BP)
Cadbury Schweppes
Caja Popular Mexicana
CALTEX Philippines
Cambridge Bioscience, Ltd.
Cape Natural Teas
Cargill
Cascadia Forest Goods
Caterpillar International
Central East Africa Railways Company Ltd. (CEAR)
Cenveo
Cheetah Zambia Ltd.
ChevronTexaco
Chiquita
Cikel Group
CIRANDA
Cisco Systems
Citigroup
Clean Chemical Sweden AB
Coca Cola
Coffee Enterprises
Colgate-Palmolive
Compañia de Minas Buenaventura SAA (Buenaventura Mining Company)
Compania Luz y Fuerza
ComputerAid International
Connex
Corporacion Dominicano de Empressas Electricas Estatales
Covington and Burling
Credit Agricole
D&S Gelfuel Limited
D.R. Wakefield and Company Limited
DeBeers
Development Alternatives International (DAI)
Device Global Technology
DFCU Leasing
Douglas White Architects

ECOM
EDE Consulting
Edelman Worldwide
Egyptian Natural Gas Holding Company
Electricite de France International (EDF)
Energy Conversion Devices (ECD)
Environment System Products (ESP)
EplerWood International
ERM Japan
Ernst & Young
ESRI
Evensen Dodge
Exportimo/South Cone Trading
Exxon Mobil
Felton International
Femmes du Maroc Magazine
Finta Dairy Company Limited
Fitch Rating
Fludor S.A.
Forest Fruits and African Botanical
Forest World Group
Frontier Financial
GAPI
General Mills
Gibson
GICA
GlaxoSmithKline
Global Medical Technologies
Godrej Industries Limited.
Goldman Sachs
Good Coffee Company
Gorkha Ayurved Company (P) Ltd.
Grassroots Natural Products
Green Mountain Coffee Roasters
Heinz
Hershey Foods
Hewlett Packard
Highland Coffee Promotion Company
Himalayan BioTrade Pvt. Ltd. (HBTL)
Hindalco
Home Depot
Honest Tea
House of Godrej
IBM
IKEA
Intermarket Discount House Zambia Ltd.
International Specialties, Inc.
Intervet International
Intracawood
Java City
Johnson and Johnson (J&J)
Kinko's, Inc.
Konkola Copper Mines (KCM)
KPI
Kraft Foods
Laboratoire Toulard
Land O'Lakes
Lebanese Leasing Company
Levis Jeans
Lifelines Technology NJ
Lippencot Mercer
Liz Claiborne
Lucent Technologies
M&M/Mars
Maganjo Grain Millers Ltd.
Magensa
Masterfoods
Maxygen Inc.
McDonald's Corp
McKinsey & Company
Merck & Co.
Michigan Credit Union League (MCUL)
Microsoft Corporation
Millstone
Mirant
Monsanto
Morton Salt Company
Motorola

Mr. Biggs
MSN
MTN Cell Phone Service Providers
MTV International
Namib Lodge Company (NLC, Wilderness Safaris)
Nestle
Neumann Kaffee Gruppe
Newdea Inc.
Nike, Inc.
Nokia
Norm Thompson Outfitters
North American Wood Products
Oderbrecht
Orange
Paprika Zimbabwe
Pfizer
Pfizer-Pharmacia
PHYTO RAMA
Planning and Development Collaborative International, Inc. (PADCO)
Plywood de Nicaragua S.A. (PlyNic)
PROCINSA
Procter & Gamble
PROMPEX
QIT Madagascar Minerals (QMM)
Radio Works
RandGold
RarTel
Rene
Robertet
Roche Vitamins
Royal Ahold, Inc.
Royal Cup
Schaffer and Associates International
Schering-Plough
Scimedx Corporation
Shell Petroleum
Siamdutch
Silkroute Indochem Limited (SIL)
Small Industries Bank of India (SIDBI)
SMART
Societe de Prod et Commercial d'Intrants Agricoles (SPCIA)
Staples, Inc
Starbucks Coffee Company
Startech Communications
STIHL Brazil
Stravendale Farm
Sumalindo
Sun Microsystems
Sunflag
Sveaskog
Synergie S.A.
Tata Iron & Steel Company Limited
The Bank of Brazil
The Bauchi Meat Company
The Flying J Petroleum Distribution Company
The Gap
Timberland
Time, Inc.
Toyota Motor Sales USA, Inc.
Trojan
UNGA 2000 Ltd.
Unilever
UPL
Veracel Celulose S/A
Vestergaarden
Viacom
Vical, Inc.
Visa International
Volcafe
Wangwa Farms Ltd.
West African Gas Pipeline Company (WAPCo)
Westwood One Radio Network
Worldspace
Wyeth
Yachana Gourmet S.A.
Yahoo
Young and Rubicam

Trade Associations

Alluvial Diamond and Gold Miners Association of Kono District (ADAGMAK)

American Chambers of Commerce in Nicaragua (AMCHAM)

American Forest and Paper Association

APCAM/APROFA

Asesewa Farmer Association

Asian Broadcasting Union

Association des Producteurs de Café-Cacao de Cote d'Ivoire

Association for Agricultural Research in East and Central Africa (ASARECA)

Association for Environmental Consultants and Contractors, Malaysia (AECCOM)

Association for Intensive Plant Production (AIPP)

Association of the Chocolate, Biscuit & Confectionery Industries of the EU

Bankers Association of Zambia

Bauchi Information Technology Forum (ITF) and Private Partnerships in LGAs.

Begoro Farmer Association

Business Against Crime

Cattle Sellers/Buyers Associations

Chocolate Manufacturers Association (CMA)

Cocoa Merchants Association of America (CMAA)

Colombian Chamber of Commerce

Confederation of Indian Industry (CII)

Confederation of Mozambique Business Associations (CTA)

Consortium of leading tour operators in Sri Lanka

East African Fine Coffees Association (EAFCA)

Electric Drive Transport Association (EDTA)

European Broadcasting Union

Federation of Cocoa Commerce

Federation of Indian Chambers of Commerce and Industry (FICCI)

Forest Industries Federation of Pará (FIEPA)

Forest Products Association of Canada

Ghana Federation of Traditional Medicine Practitioners

Guinea Chamber of Mines

Himalayan Orthodox Tea Producer Association

Indian Chamber of Commerce's (ICC) Environmental Management Centre

Information Industry South Africa

Information Technology Association of America (ITAA)

International Cocoa Organization

International Office of Cocoa, Chocolate and Sugar Confectionery

International Private Water Association (IPWA)

KfW

La Romana-Bayahibe Hotel Association

Millers Association of Zambia

National Chambers of Commerce and Industry

National Coffee Association

National Forestry Chamber

National Telecommunications Cooperative Association

Organic Producers and Processors of Zambia (OPPAZ)

Philippine Tropical Fish Exporters Association (PTFEA)

SANPROTA

Southern Africa Herbal Health Association

The American Chamber of Commerce

The Biscuit, Cake, Chocolate and Confectionery Alliance

The International Textile, Garment and Leather Workers' Federation (ITGLWF)

Uganda Coffee Trade Federation

United States Pet Industry Joint Advisory Council (PIJAC)

US Halal Chamber of Commerce

WESGRO

World Chlorine Council (WCC)

World Council of Credit Unions (WOCCU)

World Information Technology and Services Alliance (WITSA)

Zambia Coffee Growers Association

Zambia National Farmers Union (ZNFU)

APPENDIX C - USAID Data Estimation Methodology

At times, it may be necessary to estimate performance results data that are to be included in the Agency's performance-related reports. This is particularly true in the case of the PAR, which is now due on November 15th, a mere six weeks after the end of the fiscal year.

However, data estimation is an accepted practice when reporting data. Nevertheless, estimated data should be verifiable; it should be complete, reliable, comparable, and consistent. Furthermore, the methodology used to estimate data should be well documented. Accordingly, USAID employs various methods to accurately estimate performance data, as described in the table below.

SELECTED METHODS USED FOR DATA ESTIMATION
Expert Opinion
Data estimates can be based on employee judgment and experience. Only those employees who are familiar with the relevant organizational processes and procedures should be consulted.
Historical Trends
Historical data can be the best indicator of present and future performance. Historical data will typically show seasonal and annual trends.
Extrapolation
Partial-year data can be averaged or extrapolated to project full-year estimates. Partial-year data estimation should be performed by employees who are most familiar with the data in question.
Sampling and Statistics
If the cost in time and resources for collecting a large amount of data is too high, a statistically valid sample will often suffice.

Data estimation evolves and becomes more precise over time. The first time an estimate is calculated, it may be inaccurate, especially if there is no historical data to use for comparison purposes. Subsequent estimates often benefit from historical or actual data and are, therefore, more reliable.

Point of Contact

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APPENDIX D - Glossary of Terms

The glossary defines legislative, administrative, programming and budget terms referred to in this budget justification. Frequently used abbreviations are included.

Accrual: An estimate of cost that has been incurred but not yet paid by the Agency. An accrual is calculated for a specific agreement. It helps provide current information on the financial status of an activity and program.

Activity: A set of actions through which inputs such as commodities, technical assistance and training are mobilized to produce specific outputs such as vaccinations given, schools built, and micro-enterprise loans issued. Activities are undertaken to achieve "strategic," "special," or "strategic support" objectives that have been formally approved and notified to Congress.

Actual Year: Last completed fiscal year; in this case, FY 2003.

Agency Strategic Plan: See Joint State-USAID Strategic Plan.

Agreement: An agreement is the formal mutual consent of two or more parties. The Agency employs a variety of agreements to formally record understandings with other parties, including grant agreements, cooperative agreements, strategic objective agreements, memoranda of understanding, interagency agreements, contracts, and limited scope grant agreements. In most cases, the agreement identifies the results to be achieved, respective roles and contributions to resource requirements in pursuit of a shared objective within a given timeframe.

Annual Performance Plan: See Performance Budget.

Annual Performance Report: See Performance and Accountability Report (PAR).

Annual Report: The document that is reviewed internally and submitted to USAID headquarters by the field or Washington operating unit on an annual basis. The Annual Report is used to produce several other Agency reports.

Appropriation: An act of Congress permitting Federal agencies to incur obligations for specified purposes, e.g., Consolidated Appropriations Act, 2004.

Appropriation Accounts: The separate accounts for which specific dollar amounts are authorized and appropriated.

Authorization: Substantive legislation that establishes legal operation of a Federal program, either indefinitely or for a specific period, and sanctions particular program funding levels, e.g., the Foreign Assistance Act of 1961, as amended (FAA).

Economic assistance provided by the United States directly to a country or through regional programs to benefit one or more countries indirectly. (USAID Child Survival and Health Programs Fund, Development Assistance, Economic Support Fund, Assistance for Eastern Europe and the Baltic States, Assistance for the Independent States of the former Soviet Union, and most P.L. 480 food aid are among the U.S. bilateral programs. Others include Peace Corps and International Narcotics Control.)

Budget Authority: Authority provided to the U.S. Government by law to enter into obligations that result in outlays of government funds.

Budget Justification: See Congressional Budget Justification.

Budget Year: Year of budget consideration; in this case, FY 2004.

Child Survival and Health Programs Fund: An appropriation account (formerly Child Survival and Diseases Program Fund) for funding child survival, assistance to combat HIV/AIDS and other infectious diseases, and family planning activities.

Congressional Budget Justification: The presentation to the Congress (CBJ) that justifies USAID's budget request and provides information on the programs, objectives, and results. (Formerly referred to as the Congressional Presentation.)

Consortium Grant: A grant to consortia of private and voluntary organizations (PVO) to enable a group of PVOs with similar interests to exchange information and program experiences and to collaborate on programs, thereby avoiding duplication.

Continuing Resolution: A joint resolution passed to provide stop-gap funding for agencies or departments whose regular appropriations bills have not been passed by the Congress by the beginning of the fiscal year.

Cooperative Development Organization (CDO): A business voluntarily owned and controlled by its users and operated for their benefit.

Deobligation: Unexpended funds obligated for a specific activity that are subsequently withdrawn, following a determination that they are not required for that activity.

Development Assistance: Assistance under Chapters 1 and 10 of the Foreign Assistance Act primarily designed to promote economic growth and equitable distribution of its benefits.

Development Assistance Committee (DAC): A specialized committee of the Organization for Economic Cooperation and Development (OECD). The purpose of the DAC is to increase total resources made available to developing countries. Member countries jointly review the amount and nature of their contributions to bilateral and multilateral aid programs in the developing countries. DAC members are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, the Netherlands, New Zealand, Norway, Sweden, Switzerland, the United Kingdom, the United States, and the Commission of the European Economic Communities.

Development Fund for Africa (DFA): The Development Fund for Africa (Chapter 10 of the Foreign Assistance Act), relating to the authorization of long-term development assistance for sub-Saharan Africa, was added to the FAA by the Foreign Operations, Export Financing, and Related Programs Appropriations Act of 1991 (P.L. 101-513).

Development Loan: Development assistance that must be repaid, usually a long-term, low-interest loan repayable in U.S. dollars.

Development Program Grant (DPG): A grant to assist a private and voluntary organization to strengthen its ability to be an effective development agency.

Disbursement: Actual payment made for a product, service or other performance, pursuant to the terms of an agreement.

Economic Assistance: Bilateral and multilateral foreign assistance designed primarily to benefit the recipient country's economy. Military assistance, Export-Import Bank activities, Overseas Private Investment Corporation programs and Commodity Credit Corporation short-term credit sales, which have primary purposes other than economic development, are not included in this category.

Economic Support Fund: An appropriation account for funding economic assistance to countries based on considerations of special economic, political or security needs and U.S. interests. It took the place of Security Supporting Assistance, as provided in Section 10(b)(6) of the International Security Assistance Act of 1978 (92 STAT 735).

Expenditure: As reported in this document, represents the total value of goods and services received, disbursement for which may not have been made. A disbursement, also referred to as an actual expenditure or outlay, represents funds paid from the U.S. Treasury.

Fiscal Year: Yearly accounting period, without regard to its relationship to a calendar year. (The fiscal year for the U.S. Government begins October 1 and ends September 30.)

Foreign Assistance Act (FAA): The Foreign Assistance Act of 1961, as amended (USAID's present authorizing legislation).

Foreign Assistance and Related Programs Appropriation Act: The Appropriation Act for a particular year for economic (except P.L. 480 food aid) and military assistance and Export-Import Bank.

FREEDOM Support Act (FSA): The Freedom for Russia and Emerging Eurasian Democracies and Open Markets Support Act of 1992 (FREEDOM Support Act, P.L. 102-511) authorizes assistance to the Independent States of the former Soviet Union (referred to as Eurasia).

Functional Assistance: Development Assistance funded from the Development Assistance, Child Survival and Health Programs Fund, and Development Credit Programs appropriation accounts and authorized from one of the following eight authorization accounts: (1) Agriculture, Rural Development and Nutrition; (2) Population Planning; (3) Health; (4) Child Survival; (5) AIDS Prevention and Control; (6) Education and Human Resources Development; (7) Private Sector, Environment and Energy; and (8) Science and Technology.

Global Program or Activity: A global program or activity refers to a USAID program or activity that takes place across various regions (i.e., trans-regional in nature). This type of program is most often managed by a central operating bureau such as Democracy, Conflict, and Humanitarian Assistance; Economic Growth, Agriculture, and Trade; and Global Health.

Goal: A long-term development result in a specific area to which USAID programs contribute and which has been identified as a specific goal by the Agency.

Government Performance and Results Act: The Government Performance and Results Act (GPRA) of 1993 (P.L. 103-62) provides for the establishment of strategic planning and performance management in the Federal government.

Grant: Assistance to an organization to carry out its activities as opposed to the acquisition of services for USAID or a host country that need not be repaid. (Term also describes a funding instrument for programs of an institution or organizations, e.g., International Executive Service Corps or an international agricultural research center.)

Gross Domestic Product (GDP): Measures the market value of total output of final goods and services produced within a country's territory, regardless of the ownership of the factors of production involved, i.e., local or foreign, during a given time period, usually a year. Earnings from capital invested abroad (mostly interest and dividend receipts) are not counted, while earnings on capital owned by foreigners but located in the country in question are included. The GDP differs from the GNP in that the former excludes net factor income from abroad.

Gross National Product (GNP): Measures the market value of total output of final goods and services produced by a nation's factors of production, regardless of location of those factors, i.e., in the country or abroad, during a given time period, usually a year. Earnings from capital owned by nationals but located abroad (mostly interest and dividend receipts) are included, while earnings in the country by factors owned by foreigners are excluded.

Host Country: A country in which the USAID sponsoring unit is operating.

Input: A resource, operating expense or program funded, that is used to create an output.

Intermediate Result: The most important results that must occur in order to achieve a strategic objective; a cluster or summary of results used in summarizing the results framework.

International Financial Institution (IFI): Currently known as a multilateral development bank (MDB), a multilateral lending institution that provides resources for development. These institutions, or banks, include the following; Asian Development Bank (ADB) and Fund (ADF), African Development Bank (AFDB) and Fund (AFDF), European Bank for Reconstruction and Development (EBRD), Inter-American Development Bank (IADB), International Bank for Reconstruction and Development (IBRD, or the "World Bank"), International Finance Corporation (IFC), International Development Association (IDA), Middle East Development Bank (MEDB), and North American Development Bank (NADB).

Joint Planning: A process by which an operating unit actively engages and consults with other relevant and interested USAID offices in an open and transparent manner. This may occur through participation on teams or through other forms of consultation.

Joint State Department-USAID Strategic Plan: All federal agencies produce a multi-year Agency Strategic Plan (ASP). In 2003, USAID and the Department of State wrote a joint strategic plan detailing USAID and Department of State contributions to the development and diplomacy objectives of the National Security Strategy of the United States. It represents the Agency's overall plan for providing development assistance. The strategic plan articulates the Agency's mission, goals, and program approaches.

Life of Strategic Objective: The approved time for a strategic objective, that can be amended at any time. While formal approval is within the overall operating unit's strategic plan, a strategic objective may not necessarily begin and end when a plan begins and ends. No activity helping to achieve a result for a given strategic objective can be implemented beyond that strategic objective's life.

Limited Scope Grant Agreement: This agreement is similar to the strategic objective agreement, but is shorter in length. It is used for obligating funds for a small activity or intervention, e.g., participant training or program development and support.

Loan: Assistance that must be repaid. Repayment terms for development loans under Development Assistance and the Economic Support Fund are established by USAID in accordance with the Foreign Assistance Act of 1961, as amended (FAA), and the current Foreign Assistance and Related Programs Appropriation Act.

Manageable Interest: That which is within USAID's reasonable control, within the context of contracts and grants. That which is in the strategic objective team's reasonable influence, in the context of the strategic objective team including partners.

Management Services Grant: A grant to a private and voluntary organization (PVO) that in turn provides management or program support services (e.g., clearinghouse, accounting assistance, evaluation) to other PVOs.

Mission: The ultimate purpose of the Agency's programs. It is the unique contribution of USAID to U.S. national interests. There is one Agency mission.

Mission: The Agency field office that oversees USAID activities in a host country.

Multilateral Assistance: Assistance which the United States provides to less or least developed countries (LDC) through multilateral development banks, the United Nations agencies, and other international organizations with development purposes.

Multilateral Development Bank (MDB): See international financial institutions.

National Interest: A political and strategic interest of the United States that guides the identification of recipients of foreign assistance and the fundamental characteristics of development assistance.

New Directions: Legislation enacted in 1973 requiring USAID to focus more of its efforts on helping the poor majority in developing countries.

Nongovernmental Organization (NGO): An organization, organized either formally or informally, that is independent of government.

Non-Presence Country: A country where USAID-funded activities take place but where U.S. direct-hire staff are not present to manage or monitor these activities. Note that some non-presence countries may have other USAID employees, such as foreign service nationals or U.S. personal service contractors, present.

Non-Project Assistance: Program or commodity loans or grants that provide budget or balance-of-payments support to another country. Such assistance is usually funded under the Economic Support Fund or Development Fund for Africa.

Obligation: Legal commitment of funds through such mechanisms as signed agreements between the U.S. Government and host governments, contracts and grants to organizations, and purchase orders.

Objective: A significant development result that contributes to the achievement of an Agency goal. Several Agency objectives contribute to each Agency goal. An Agency objective provides a general framework for more detailed planning that occurs for a specific country and regional program.

Ocean Freight Reimbursement: Reimburses private and voluntary organizations (PVO) for up to one -half of their cost in shipping equipment and commodities overseas in support of their development programs.

Official Development Assistance (ODA): Assistance on concessional terms (with a grant element of at least 25%), provided by member countries of the Development Assistance Committee to promote economic development in developing countries.

Operating Expenses: Those appropriated funds used to pay salaries, benefits, travel, and all support costs of direct-hire personnel. The "cost of doing business."

Operating Unit: An agency field mission or Washington office or higher level organizational unit that expends program or operating expense funds to achieve a strategic or special objective, and that has a clearly defined set of responsibilities focused on the development and execution of a strategic plan.

Operational Year: Fiscal year in progress (current year), presently FY 2004.

Operational Program Grant (OPG): A grant to private and voluntary organizations to carry out specific programs.

Organization for Economic Cooperation and Development (OECD): Organization of donor countries that promotes policies designed to stimulate economic growth and development of less developed countries. OECD member countries are Australia, Austria, Belgium, Canada, Denmark, Finland, France, the Federal Republic of Germany, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States.

Outlay: Cash disbursement from the Treasury.

Output: A tangible immediate and intended product or consequence of an activity. Examples of outputs include personnel trained, people fed, analyses prepared, vaccinations given, policies recommended, technical assistance delivered, better technologies developed, and new construction completed.

Parameter: A given framework or condition within which decision-making takes place, i.e., Agency goals, earmarks, legislation, etc.

Parameter-setting: A process by which a parameter is agreed upon and used to define limits, constraints and options for the development or revision of a strategic plan.

Participant: USAID-sponsored, less developed country (LDC) national being trained outside his or her own country.

Peacekeeping Operations: The program authorized and appropriated for a special type of economic assistance for peacekeeping operations and other programs carried out in furtherance of the national interests of the United States.

Performance and Accountability Report: The Agency's performance and accountability report (PAR) synthesizes the Agency program performance for the year ending the past September (e.g., FY 2003). It reports by Agency goal against the Agency's FY 2003 annual performance plan that was prepared and submitted to Congress in 2001. The annual performance plan is a required document under the Government Performance and Results Act. In contrast, the annual budget justification is organized by the operating, or management, units in countries, regions, or Washington. The budget justification reports on the performance of each program managed by each Agency operating unit.

Performance Budget: The Agency's performance budget (PB) summarizes the Agency's performance plans for the same year as the budget request year (e.g., FY 2005). It is organized by the Agency goals outlined in the Agency strategic plan. The annual performance plan is a required document under the Government Performance and Results Act. In contrast, the annual budget justification is organized by specific countries, regions, or global programs. The budget justification contains the plans for each Agency operating unit.

Performance Indicator: Particular characteristic or dimension used to measure intended changes defined by an organizational unit's results framework. Performance indicators are used to observe progress and to measure actual results compared to expected results. The indicators are usually expressed in quantifiable terms, and should be objective and measurable (numeric values, percentages, scores and indices).

Performance Plan: The performance plan identifies annual performance benchmarks of the operating unit. Meeting benchmarks, or the planned levels of achievement for a given year, are considered important steps toward ultimately achieving the ten-year performance goals identified in the Strategic Plan.

Performance Target: The specific and intended result to be achieved within an explicit timeframe and against which actual results are compared and assessed. In addition to final targets, interim targets also may be defined.

Pillar: USAID's new strategic orientation involves four pillars. The first, the Global Development Alliance (GDA), represents a change in the way USAID implements assistance; USAID will serve as a catalyst to mobilize the ideas, efforts, and resources of the public sector, corporations, the higher education community, and nongovernmental organizations in support of shared objectives overseas. USAID has aggregated its current and mutually reinforcing programs and activities into three program pillars to utilize resources more effectively and to describe its programs more clearly. The three program pillars are Democracy, Conflict, and Humanitarian Assistance; Economic Growth, Agriculture, and Trade; and Global Health.

Pipeline: The difference between obligations and expenditures.

President's Budget: Budget for a particular fiscal year transmitted to Congress by the President in accordance with the Budget and Accounting Act of 1921, as amended.

Private and Voluntary Organization (PVO): A non-profit, tax-exempt and nongovernmental organization established and governed by a group of private citizens whose purpose is to engage in voluntary charitable and development assistance operations overseas.

Program: A coordinated set of USAID-financed activities directed toward specific goals. For example, maternal and child health, nutrition, education and family planning activities designed to promote the spacing of children may comprise a program to reduce infant deaths.

Program Approach: A tactic identified by the Agency as commonly used to achieve a particular objective. Several program approaches are associated with each Agency objective.

Project: A structured undertaking (often involving considerable money, personnel and equipment) of limited duration that is developed through various bureaucratic, analytical, and approval processes in order to achieve a tangible objective (e.g., a school construction project, an adult literacy project). A project should be considered as one of several types of activities that contribute to a given result or set of results. (See Activity.)

Public Law 480: The Agricultural Trade Development and Assistance Act of 1954, as amended, which governs administration of the U.S. Food for Peace program. (Term P.L. 480 is often used to describe food aid.)

Reimbursement: Collection of funds for services provided to recipients outside the USAID.

Reobligation: Obligation of an amount that had been obligated and deobligated in prior transactions.

Result: A significant, intended and measurable change in the condition of a customer, or a change in the host country, institution or other entity that will affect the customer directly or indirectly.

Results Framework: The results framework explains how the strategic objective is to be achieved, including those results that are necessary and sufficient, as well as their causal relationships and underlying assumptions.

Results Package: A collection of activities, including staff and partner involvement, necessary and sufficient to achieve one or more results in a results framework.

Results Review and Resource Request (R4): This document has been replaced by the Annual Report.

Special Objective: The result of an activity or activities that do not qualify as a strategic objective, but support other U.S. Government assistance objectives. A special objective is expected to be small in scope relative to the portfolio as a whole.

Stakeholder: An individual or group who has an interest in and influences USAID activities, programs and objectives.

Strategic Framework: A graphical or narrative representation of the Agency's strategic plan. The framework is a tool for communicating the Agency's development strategy. The framework also establishes an organizing basis for measuring, analyzing, and reporting results of Agency programs.

Strategic Objective: The most ambitious result that an Agency operational unit, along with its partners, can materially affect, and for which it is willing to be held accountable within the time period of the strategic objective.

Strategic Plan: The framework which an operating unit uses to articulate the organization's priorities, to manage for results, and to tie the organization's results to the customer and beneficiary. The strategic plan is a comprehensive plan that includes the limitation of strategic objectives and a description of how resources will be deployed to accomplish the objectives. A strategic plan is prepared for each portfolio whether it is managed at a country, regional, or central level.

Support for East European Democracy (SEED) Act: The Support for East European Democracy Act of 1989 (P.L. 101-179) authorizes assistance to Eastern Europe.

Sustainable Development: Economic and social growth that does not exhaust a country's resources; that does not damage the economic, cultural or natural environment; that creates incomes and enterprises; and that builds indigenous institutions.

Target: See Performance Target.

APPENDIX E: Abbreviations and Acronyms

A/AID	Office of the Administrator
A&A	Acquisition and Assistance
AACD	Activity Assistance Completion Date
AAD	Activity Approval Document
AAEF	Albanian-American Enterprise Fund
AAFLI	Asian-American Free Labor Institute
AATF	African Agricultural Technology Foundation
ABA	American Bar Association
ABC	Abstinence, Being Faithful and Using Condom Approach
ABEL	Advancing Basic Education and Literacy
ACDI	Agriculture Cooperation Development International
ACDI	Agricultural Cooperative Development Institute
ACI	Andean Counterdrug Initiative
ACILS	American Center for International Labor Solidarity
ADB	Asian Development Bank
ADEA	Association for the Development of Education in Africa
ADEX	Exporters' Association (Peru)
ADF	African Development Foundation
ADP	Automated Data Processing
ADR	Alternative Dispute Resolution
ADS	Automated Directives System
AED	Academy for Educational Development
AEEB	Assistance to Eastern Europe and the Baltics
AELGA	Africa Emergency Locust and Grasshopper Assistance
AERA	Accelerating Economic Recovery in Asia
AFDB	African Development Bank
AFDF	Africa Development Fund
AFR	Africa Bureau
AG	Attorney General
AGEXPRONT	Nontraditional Exporters' Guild (Guatemala)
AGILE	Accelerated Growth, Investment, and Liberalization with Equity
AGOA	Africa Growth and Opportunities Act
AIDS	Acquired Immune Deficiency Syndrome
AIDSCAP	Acquired Immunodeficiency Syndrome Control and Prevention Project
AIFLD	American Institute for Free Labor Development
AIHA	American International Health Alliance
AIN	Integrated Child Care (English translation)
ALGAS	Asia Least Cost Greenhouse Gas Abatement Strategy
ALO	Association Liaison Office
AMIR	Access to Micro-Finance and Implementation of Policy Reform
AMR	Anti-Microbial Resistance
ANACAFE	Guatemala' National Coffee Association
ANE	Asia and Near East Bureau
ANERA	American Near East Refugee Aid
AOJ	Administration of Justice
AOJS	Administration of Justice Support
APAC	AIDS Prevention and Control
APEC	Asia-Pacific Economic Cooperation
APEDA	Agricultural Products Export Development Authority
APPT	Abuse Prevention and Protection Team

APR	Agricultural Policy Reform
APRP	Agricultural Policy Reform Program
AREP	Accelerated Reform for Enterprise Promotion
ARI	Acute Respiratory Infection
ARV	Anti-Retroviral Vaccines
ASHA	American Schools and Hospitals Abroad
ATFL	American Task Force in Lebanon
ATI	Appropriate Technology International
ATRIP	Africa Trade and Investment Program
AUB	American University of Beirut
AUSAID	Australia Agency for International Development
AVRDC	Asian Vegetable Research and Development Center
AVSC	Access for Voluntary Surgical Contraceptive
AWACS	AID Worldwide Accounting and Control System
BASIC	Basic Support for Institutionalized Child Support
BBSA	Basic Business Skill Acquisition
BCN	Biodiversity Conservation Network
BIGUF	Bangladesh Independent Garment Workers Union Federation
BOD	Biochemical Oxygen Demand
BOOT	Build-Own-Operate-Transfer
BOT	Build-Operate-Transfer
BRAC	Bangladesh Rural Advancement Committee
BSM	Business Systems Modernization
BTEC	Business Transformation Executive Committee
CA	Cooperating Agency
CAAEF	Central Asian - American Enterprise Fund
CABEI	Central American Bank for Economic Integration
CABIO	Collaborative Agricultural Biotechnology Initiative
CAC	Community Access Center
CACEDERF	Central America and Caribbean Emergency Disaster Relief Fund
CAFTA	Central America Free Trade Agreement
CAI	Creative Associates Incorporated
CAIC	Caribbean Association of Industry and Commerce
CAMP	Coastal Aquifer Management Program
CAP	Counterpart Alliance for Partnership Program
CAPAS	Central American Protected Areas System
CAPEL	Center for the Promotion of Electoral Assistance
CARE	Cooperative for Assistance and Relief Everywhere, Inc.
CAREC	Caribbean Epidemiology Center
CARICOM	Caribbean Community
CARPE	Central African Regional Program for the Environment
CATIE	Center for Tropical Agriculture Investigations and Studies
CBFRM	Community-based Forest Resource Management
CBJ	Congressional Budget Justification
CBNRM	Community-based Natural Resource Management
CBO	Community-Based Organization
CCA	Clinger-Cohan Act
CCAD	Central American Commission for Environment and Development
CCM	Country Coordinating Mechanism
CCP	Code of Criminal Procedures
CCT	Cooperative Coffee Timor
CDC	Centers for Disease Control and Prevention
CDIE	Center for Development Information and Evaluation
CDO	Cooperative Development Organization
CDP	Cambodian Defenders Project
CDR	Cooperative Development Research Program (U.S.-Israel)
CECI	Canadian Center for International Studies and Cooperation
CEDPA	Center for Development and Population Activities

CEE	Central and Eastern Europe
CEELI	Central and East European Law Institute
CEP	Community Empowerment Program
CEPAL	Economic Commission for Latin America
CEPPS	Consortium for Elections and Political Processes Strengthening
CERTI	Complex Emergency Response and Transition Initiative
CETTI	Centers of Excellence in Teacher Training Initiative
CEWARN	Conflict Early Warning Network
CFET	Consolidated Fund for East Timor
CFO	Chief Financial Officer
CG	Consultative Group
CGAP	Consultative Group to Assist the Poorest
CGIAR	Consultative Group for International Agricultural Research
CHF	Cooperative Housing Foundation
CIDA	Canadian International Development Agency
CIF	Capital Investment Fund
CIFOR	Center for International Forestry Research
CILSS	Permanent Interstate Committee for the Control of Drought in the Sahel
CIMMY	International Maize and Wheat Improvement Center
CIP	Commodity Import Program
CIT	Communities in Transition
CITES	Convention of International Trade in Endangered Species
CLD	Consortium for Legislative Development
CLD/SUNY	Center for Legislative Development, State University of New York, Albany
CLDP	Commercial Law Development Program
CLUSA	Cooperative League of the United States of America
CMM	Conflict Management and Mitigation
CMM	Country Coordinating Mechanism
CMR	Child Mortality Rate
CMS	Commercial Markets Strategy
CNG	Compressed Natural Gas
CO2	Carbon Dioxide
COE	Council of Europe
COEN	El Salvador Disaster Preparedness Organization
COMESA	Common Market for Eastern and Southern Africa
COMURES	Corporation of Municipalities in El Salvador
CONRED	National Disaster Coordinating Committee (Guatemala)
CONTIERRA	Land Conflict Resolution Commission (Guatemala)
COOP	Continuity of Operations
COP	Community of Practice
COTS	Commercial off the Shelf
CP	Congressional Presentation (now Congressional Budget Justification)
CPA	Coalition Provisional Authority (Iraq)
CPIC	Capital Planning and Investment Control
CPP	Comprehensive Post Partum Center
CPR	Contraceptive Prevalence Rate
CRM	Coastal Resources Management
CRS	Catholic Relief Services
CRSP	Collaborative Research Support Program
CSD	Child Survival and Diseases Fund (now Child Survival and Health Program Fund)
CSD	Commission on Sustainable Development
CSE	Colombo Stock Exchange
CSG	Council of State Governments
CSH	Child Survival and Health Programs Fund
CSM	Contraceptive Social Marketing
CSO	Civil Society Organization
CSW	Commercial Sex Workers

CT	Cash Transfer
CVA	Conflict Vulnerability Assessment
CWS	Church World Services
CY	Calendar Year
CYP	Couple-Years' Protection
DA	Development Assistance
DAC	Development Assistance Committee (OECD)
DAF	Development Assistance Fund
DAI	Development Alternatives International
DAP	Development Activity Proposal
DART	Disaster Assistance Response Team
DBO	Design-Build-Operate
DCA	Development Credit Authority
DCHA	Democracy, Conflict and Humanitarian Assistance Bureau (USAID)
DCOF	Displaced Children and Orphans Fund
DCP	Development Credit Program
DEVTA	Deworming and Enhanced Vitamin A
DFA	Development Fund for Africa
DfID	Department for International Development, United Kingdom
DG	Democracy and Governance
DH	Direct Hire
DHHS	Department of Health and Human Services
DHRF	Democracy and Human Rights Fund
DHS	Demographic Health Survey
DIET	District Institute of Education and Training
DIMS	Democratic Indicators Monitoring Survey
DOD	Department of Defense, U.S. Government
DOE	Department of Energy, U.S. Government
DOJ	Department of Justice, U.S. Government
DOP	Declaration of Principles on Interim Self-Governing Arrangement
DOS	Department of State, U.S. Government
DOT	Department of Treasury, U.S. Government
DOTS	Directly Observed Therapy, Short Course
DP	Democracy Partnership
DPEP	District Primary Education Program
DPT	Diphtheria, Pertussis and Tetanus
DPT3	Diphtheria, Pertussis, Tetanus Immunization Series
DRG	Diagnostic -Related Group
DRI	Development Readiness Initiative (USAID)
DRI	Diplomatic Readiness Initiative (Department of State)
DRP	Demobilization and Rehabilitation Program (World Bank)
DSP	Development Support Program
DTT	Deloitte Touche Tohmatsu
DVS	Democratic Values Survey
EA	Enterprise Architecture
EA	Environmental Assessment
EAC	East African Community
EAGER	Equity and Growth through Economic Research
EAI	Enterprise for the Americas Initiative
EAP	Environmental Action Plan
EAPEI	East Asia and Pacific Environmental Initiative
EBRD	European Bank for Reconstruction and Development
EC	European Community
ECEP	Energy Conservation and Environment Project
ECHO	European Commission Humanitarian Organization
ECLAC	Economic Commission for Latin America and the Caribbean
ECOMOG	Economic Community of West African States Monitoring Group
ECOWAS	Economic Community of West African States
ECU	European Currency Unit

EDDI	Education for Development and Democracy Initiative
E&E	Europe and Eurasia Bureau
EE	Emergency and Evacuation
EEAA	Egyptian Environmental Affairs Agency
EEDC	Economic Entrepreneurial Development Center
EEHC	Electricity Holding Company
EEPP	Egypt Environmental Policy Program
EG	Economic Growth
EGAT	Economic Growth, Agriculture and Trade Bureau (USAID)
EIA	Environmental Impact Assessment
EIB	European Investment Bank
EMED	Entrepreneur Management and Executive Development
EMPS	Environment Managed for Prosperity and Sustainability
ENI	Europe and New Independent States (now Europe and Eurasia)
ENR	Environment and Natural Resources
EO	Executive Order
EOP	Office of Equal Opportunity Programs
EPA	Environmental Protection Agency, U.S. Government
EPI	Expanded Program of Immunization
EPRA	Economic Policy Resource Center
EPSP	Economic Policy Support Project
ERF	Emergency Response Fund
ES	Office of the Executive Secretariat
ESAF	Extended Structural Adjustment Facility (International Monetary Fund)
ESCOs	Energy Service Companies
ESEG	Energy Security for Economic Growth
ESF	Economic Support Fund
ETU	Egyptian Technology University
EU	European Union
EU/PHARE	European Union - Poland, Hungary, Albania, Romania, Estonia
FANTA	Food and Nutrition Technical Assistance
FAO	Food and Agriculture Organization (United Nations)
FAR	Fixed Amount Reimbursable
FBO	Faith-Based Organization
FDA	Food and Drug Administration, U.S. Government
FDI	Foreign Direct Investment
FEMA	Federal Emergency Management Agency, U.S. Government
FEWS	Famine Early Warning System
FFMIA	Federal Financial Management Improvement Act
FFP	Food for Peace
FFW	Food for Work
FH	Freedom House
FH/FNN	Freedom House/National Forum Foundation
FIAS	Foreign Investment Advisory Service
FICCI	Federation of Indian Chambers of Commerce and Industry
FINCA	Foundation for International Community Assistance
FLAG	Firm Level Assistance Group
FMIP	Financial Management Improvement Act
FORWARD	Fostering Resolution of Water Resources Disputes
FP	Family Planning
FREEDOM	Freedom for Russia and Emerging Eurasian Democracies and Open Markets Support Act of 1992 (FREEDOM Support Act)
FRM	Forest Resources Management
FSA	FREEDOM Support Act
FSI	Financial Systems Integration
FSO	Foreign Service Officer
FSVC	Financial Services Volunteer Corps

FTA	Free Trade Agreement
FTAA	Free Trade Area of the Americas
FTE	Full Time Equivalency
FtF	Farmer to Farmer Program
FWWB	Friends of Women's World Banking
FY	Fiscal Year
G-8	Group of Eight (leading industrialized nations consisting of Canada, France, Germany, Italy, Japan, United Kingdom, and United States)
GAI	Global AIDS Initiative
GAIN	Global Alliance for Improved Nutrition
GAO	General Accounting Office
GAVI	Global Alliance for Vaccines and Immunization
GATT	General Agreement on Tariffs and Trade
GC	Office of the General Counsel
GCA	Global Coalition for Africa
GCC	Global Climate Change
GDA	Global Development Alliance Secretariat
GDF	Global Drug Facility
GDP	Gross Domestic Product
GEF	Global Environment Facility
GESAMP	Group of Experts on the Scientific Aspects of Marine Environmental Protection
GESI	Global Environmental Sanitation Initiative
GFATM	Global Fund to Fight AIDS, Tuberculosis, and Malaria
GH	Global Health Bureau (USAID)
GHAI	Greater Horn of Africa Initiative
GHG	Greenhouse Gas
GIE	Gaza Industrial Estate
GIN	Greening of Industry Network
GIS	Geographic Information System
GLI	Great Lakes Initiative
GLJI	Great Lakes Justice Initiative
GNP	Gross National Product
GPA	Global Program of Action for the Protection of the Marine Environment from Landing-based Activities
GPRA	Government Performance and Results Act (P.L. 103-62)
GREGI	Gobi Regional Growth Initiative
GSA	General Services Administration
GSP	General System of Preference
GSU	Georgia State University
GTN	Global Technology Network
GTZ	German Agency for Technical Cooperation
HA	Hectare
HBCUs	Historically Black Colleges and Universities
HCC	Historical Clarification Commission
HG	Housing Guaranty
HIID	Harvard Institute of International Development
HIPC	Heavily Indebted Poor Countries
HIV	Human Immunodeficiency Virus
HKI	Helen Keller International
HMHC	Health Maintenance and Health Care
HMO	Health Maintenance Organization
HPSP	Health Policy Support Program
HRC	Human Rights Commission
IACCC	Inter-Agency Climate Change Committee
IAF	Inter-American Development Foundation
IARC	International Agricultural Research Center
IAS	International Accounting Standards
IAVI	International AIDS Vaccine Initiative
IBRA	Indonesian Bank Restructuring Agency
IBRD	International Bank for Reconstruction and Development (World Bank)
IBTC	International Business and Technical Consultants

ICASS	International Cooperative Administrative Support Services
ICDDR	International Center for Diarrheal Disease Research
ICDS	Integrated Child Development Services
ICICI	Industrial Credit and Investment Corporation of India
ICITAP	International Criminal Investigation and Training Assistance Program
ICLARM	International Center for Living Aquatic Resources Management
ICNL	International Center for Not-For-Profit Law
ICRC	International Committee of the Red Cross
ICZM	Integrated Coastal Zone Management
ID	Infectious Diseases
IDA	International Development Assistance
IDA	International Disaster Assistance (now International Disaster and Famine Assistance)
IDB	Inter-American Development Bank
IDE	International Development Enterprises
IDEE	Institution for Democracy in Eastern Europe
IDFA	International Disaster and Famine Assistance
IDP	Internally Displaced Person
IDSR	Integrated Disease Surveillance and Response
IEC	Information, Education and Communication
IESC	International Executive Service Corps
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IFDC	International Fertilizer Development Center
IFES	International Foundation for Electoral Systems
IFESH	International Foundation for Education and Self Help
IFI	International Financial Institute
IFPP	International Relief Partnership Program
IFOR	Implementation Force (NATO)
IFPRI	International Food Policy Research Institute
IFPS	Innovations in Family Planning Services
IFRC	International Federation of the Red Cross
IG	Inspector General
IHE-Delft	International Institute for Infrastructural, Hydraulic, and Environmental Engineering
IHRIG	International Human Rights Law Group
IIDH	Inter-American Institute of Human Rights
ILO	International Labor Organization
ILRF	International Labor Rights Fund
ILSI	International Life Sciences Institute
IMCI	Integrated Management of Childhood Illnesses
IMET	International Military Education and Training
IMF	International Monetary Fund
IMR	Integrated Managing for Results
IMR	Infant Mortality Rate
IMT	Irrigation Management Transfer
INC	International Narcotics Control (State Department)
INCLEN	International Clinical Epidemiology Network
INDRA	Indonesia Debt Restructuring Agency
INL	International Narcotics and Law Enforcement (State Department)
IO	International Organization
IOM	International Organization for Migration
IPEC	International Program on the Elimination of Child Labor
IPO	International Public Organization
IPPF	International Planned Parenthood Federation
IPR	Intellectual Property Rights
IQC	Indefinite Quantity Contract
IR	Intermediate Result
IRDP	Integrated Rural Development Program
IREX	International Research and Exchanges Board

IRI	International Republican Institute
IRIS	Center for Institutional Reform in the Informal Sector
IRM	Information Resource Management
IRRF	Iraq Relief and Reconstruction Fund
ISA	Initiative for Southern Africa
ISAR	Institute on Soviet - American Relations
ISBO	Institutional Strengthening for Business Opportunities
ISO	International Export Standard
IT	Information Technology
ITSH	Internal Transport, Shipping and Handling
IUD	Inter-Uterine Device
IVCHS	Improved Village and Community Health Service Program
IVS	International Voluntary Services
JAFPP	Jordan Association of Family Planning
JBIC	Japanese Bank for International Development
JFMIP	Joint Financial Management Improvement Program
JHPIEGO	Johns Hopkins Program Providing Reproductive Health
JHU/PCS	Johns Hopkins University/Population Communication Services
JICA	Japanese International Cooperation Agency
JSI	John Snow Incorporation
JUSBP	Jordan U.S. Business Partnership
JVA	Jordan Valley Authority
JWC	Joint Water Committee
KfD	Knowledge for Development
KG	Kilogram
KHANA	Khmer HIV/AIDS Alliance
LAC	Latin America and the Caribbean Bureau
LAF	Lebanese Armed Forces
LAU	Lebanese American University
LC	Local Currency
LE	Egyptian Pound
LEB	Locally Elected Body
LEWS	Livestock Early Warning System
LGU	Local Government Unit
LMI	Lower-Middle-Income
LPA	Legislative and Public Affairs Bureau
LTTE	Liberation Tigers of Tamil Elam
LWVF	Patrick J. Leahy War Victims Fund
M	Management Bureau (USAID)
MACS	Mission Accounting and Control System
MAFF	Ministry of Agriculture Forestry and Fisheries
MAI	Multilateral Assistance Initiative
MAP	Market Access Program
MAP	Morocco Agribusiness Promotion
MBA	Masters of Business Administration
MBIT	Masters of Business in Information Technology
MCA	Millennium Challenge Account
MCC	Millennium Challenge Corporation
MCEI	Municipal Coastal Environmental Initiative
MCH	Maternal and Child Health
MCM	Million Cubic Meters
MDB	Multilateral Development Bank
M&E	Monitoring and Evaluation
MEA	Middle East and North Africa
MEG	Morocco Education for Girls
MEPI	Middle East Partnership Initiative
MERC	Middle East Regional Cooperation
MES	Mongolian Energy Sector Project
MFA	Microenterprise Finance
MFI	Microfinance Institution
MHO	Mutual Health Organizations

MILGP	Military Group
MINUGUA	United Nations Verification Mission for Guatemala
MIS	Management Information System
MMR	Maternal Mortality Rate
MNE	Ministry of National Education
MNLF	Moro National Liberation Front
MOA	Ministry of Agriculture
MOE	Ministry of Education
MOE	Ministry of Environment
MOEYS	Ministry of Education, Youth and Sports
MOF	Minister of Finance
MOH	Ministry of Health
MOHHC	Ministry of Health and Health Care
MOHP	Ministry of Health and Population
MOJ	Ministry of Justice
MOLG	Ministry of Local Government
MOMRA	Ministry of Municipal and Rural Affairs
MOPH	Ministry of Public Health
MOST	Micronutrient Operational Strategies and Technologies
MOU	Memorandum of Understanding
MP	Member of Parliament
MPF	Multiproject Financing Facility
MPM	Management Policy and Metrics
MPMS	Management Policy and Metrics Staff
MPP	Mission Performance Plan
MPRP	Mongolian People's Revolutionary Party
MSE	Micro and Small Enterprises
MSED	Micro and Small Enterprise Development
MSH	Management Sciences for Health
MSME	Micro, Small and Medium Enterprise
MT	Metric Tons
MTCT	Mother-to-Child Transmission
MTT	Mobile Task Team
MVCS	Most Valuable Companies
MW	Megawatt
MWI	Ministry of Water and Irrigation
NA	Not applicable, or Not Available
NACP	National AIDS Control Program
NAMRU-3	Naval Medical Research Unit
NAPA	National Academy for Public Administration
NAS	Narcotic Affairs Section (State Department)
NASA	National Aeronautics and Space Administration
NASDA	National Association of State Development Agencies
NATO	North Atlantic Treaty Organization
NBG	National Bank of Georgia
NCBA	National Cooperative Business Association
NCJS	National Center for Judicial Studies
NDI	National Democratic Institute
NEAP	National Environmental Action Plan
NED	National Endowment for Democracy
NED	New Enterprise Development
NEP	New Entry Professional
NEPAD	New Partnership for Africa's Development
NET	NIS Exchanges and Training
NFALP	Non-Formal and Adult Literacy Program
NFC	National Finance Center
NGO	Non-Governmental Organization
NID	National Immunization Day
NIH	National Institutes of Health
NIS	New Independent States of the Former Soviet Union (now Independent States of the Former Soviet Union)
NMS	New Management System
NOAA	National Oceanic and Atmospheric Administration

NORAD	Norwegian Aid
NPA	Non-Project Assistance
NPI	New Partnership Initiative
NPR	National Performance Review
NRECA	National Rural Electric Cooperative Administration
NRM	Natural Resources Management
NTA	New Transatlantic Agenda
NTE	Non-Traditional Export
NTFP	Non-Traditional Forest Products
NWI	Ministry of Water and Irrigation
OAS	Organization of American States
OAU	Organization of African Unity
ODA	Official Development Assistance
OE	Operation Expenses
OECD	Organization for Economic Cooperation and Development
OECF	Overseas Economic Cooperation Fund
OECS	Organization of Eastern Caribbean States
OFDA	Office of Foreign Disaster Assistance (USAID)
OHCHR	Office of the High Commissioner for Human Rights (United Nations)
OIG	Office of Inspector General (USAID)
OMB	Office of Management and Budget
OPEC	Organization of Petroleum Exporting Countries
OPIC	Overseas Private Investment Corporation
OPIN	Online Presidential Initiatives Network
OPV	Oral Polio Vaccine
ORS	Oral Rehydration Salts
ORS/T	Oral Rehydration Salts/Therapy
ORT	Oral Rehydration Therapy
OSCE	Organization for Security and Cooperation in Europe
OSDBU/MRC	Office of Small and Disadvantaged Business Utilization/Minority Resource Center
OTI	Office of Transition Initiatives (USAID)
OVC	Orphans and Vulnerable Children
PA	Palestinian Authority
PACD	Project Assistance Completion Date
PACT	Private Agencies Collaborating Together
PACT	Program for the Advancement of Commercial Technology
PAHO	Pan American Health Organization
PAL	Planning, Achievement, and Learning
PART	Program Assessment and Rating Tool
PASA	Participating Agency Service Agreement
PATH	Program for Appropriate Technologies in Health
PC	Palestinian Council
PDF	Power Development Fund
PED	Provincial Environment Departments
PERPP	Public Enterprise Reform and Privatization Program
PEPFAR	President's Emergency Plan for AIDS Relief
PES	Policy Environment Score
PHC	Primary Health Care
PHCI	Primary Health Care Initiative
PHN	Population, Health and Nutrition
PIEFZA	Palestinian Industrial and Free Zone Authority
PIL	Public Interest Litigation
PIP	Parks in Peril
PIPA	Palestinian Investment and Promotion Agency
PL	Public Law
PLANTE	National Alternative Development Plan (Colombia)
PLC	Palestinian Legislative Council
PLN	Indonesian National Electric Company
PLO	Palestinian Liberation Organization

PMA	Palestinian Monetary Authority
PMA	President's Management Agenda
PMC	Pune Municipal Corporation
PMO	Program Management Office
PMP	Performance Monitoring Plan
PMTCT	Prevention of Mother-to-Child AIDS Transmission
PMTI	Presidential Management Training Initiative
PNFPP	Philippine National Family Planning Program
POP	Persistent Organic Pollutant
PPC	Policy and Program Coordination Bureau (USAID)
PPG7	Pilot Program to Conserve the Brazilian Rainforest, Group of 7
PREAL	Program for Education Reform in the Americas
PRIME	Program for Innovation in Microenterprise
PRIME	Primary Providers' Training and Education in Reproduction
PRM	Population, Refugees, and Migration (State Department)
PRSP	Poverty Reduction Strategy Paper
PSC	Personal Service Contract
PSI	Population Services International
PSIP	Procurement System Improvement Project
PSO	Private Sector Organization
PVC	Private Voluntary Cooperation
PVO	Private and Voluntary Organization
PW	Price-Waterhouse
PWA	Palestinian Water Authority
PWC	Price Waterhouse Coopers
QCHT	Quality Control of Health Technologies
QIZ	Qualifying Industrial Zones
RACHA	Reproductive and Child Health Alliance
RCSA	Regional Center for Southern Africa (USAID)
RCSP	Rural Civil Society Program
RDS	Regional Development and Support
REDSO	Regional Economic Development Support Office (USAID)
RH	Reproductive Health
RHUDO	Regional Housing and Urban Development Office (USAID)
RIG	Regional Inspector General (USAID)
ROL	Rule of Law
ROT	Rehabilitate-Operate-Transfer
RRB	Regional Rural Banks
RSD	Regional Sustainable Development Office (USAID)
RTI	Research Triangle Institute
RTII	Regional Trade and Investment Initiative
SAARC	South Asian Association for Regional Cooperation
SADC	Southern Africa Development Community
SAEDF	Southern Africa Enterprise Development Fund
SAGA	Strategies and Analyses for Growth and Access
SAGE	Strategies for Advancing Girls Education
SAI	Special Assistance Initiative
SARI	South Asia Regional Initiative
SCA	Supreme Council for Antiquities
SDF	Special Development Fund
SEBI	Securities and Exchange Board of India
SEC	Office of Security
SEC	Securities and Exchange Commission
SEED	Support for East European Democracy
SEI	State Environmental Initiative
SEP	Senior Executive Program
SET	Supreme Electoral Tribunal
SIGN	Safe Injection Global Network
SIWM	Souss-Massa Integrated Water Resources
SME	Small and Medium-sized Enterprises

SME Small and Micro-Enterprises

SMME Small, Medium and Micro Enterprises

SO Strategic Objective

SOE State-Owned Enterprise

SOW Scope of Work

SPA Special Program of Assistance

SPO Special Objective

SPR Sector Policy Reform

SPRP Sector Policy Reform Program

SPS Sanitary and Phyto-sanitary Standard

SRII Standard Research Institute International

SRP Sahel Regional Program

SSH Special Self-Help Program

SSRC Social Science Research Council

SSMSC Stock Market State Commission (Ukraine)

STD Sexually Transmitted Disease

STI Sexually Transmitted Infection

TAACS Technical Advisors for AIDS and Child Survival

TACIS Technical Assistance for the Commonwealth of Independent States, European Union

TAF The Asia Foundation

TB Tuberculosis

TBD To be Determined

TCB Trade Capacity Building

TDA Tourism Development Authority

TFCA Tropical Forest Conservation Act

TFET Trust Fund for East Timor

TFR Total Fertility Rate

TI Transition Initiatives

TIFA Trade and Investment Framework

TISS Tata Institute of Social Sciences

TN Tamil Nadu

TNC The Nature Conservancy

TR&D Tropical Research and Development

TRA Telecommunications Regulatory Agency

TRADE Trade for African Development and Enterprise Initiative

TRG Triangle Research Group

TRM Tadla Resources Management

TSG The Services Group

UC Union Council

UECP Urban Environmental Credit Program

UES Urban Environmental Services

UK United Kingdom

ULP University Linkages Project

UMCOR Untied Methodist Committee on Relief

UN United Nations

UNAIDS United Nations Joint Program on HIV/AIDS

UNCHS United Nations Center for Human Settlements (Habitat)

UNDB United Nations Development Bank

UNDCP United Nations Drug Control Program

UNDP United Nation Development Program

UNECE United Nations Economic Commission for Europe

UNEP United Nations Environment Program

UNESCO United Nations Educational, Scientific and Cultural Organization

UNFCCC Untied Nations Framework Convention on Climate Change

UNFPA United Nations Population Fund

UNGA United Nations General Assembly

UNHCR Untied Nations High Commissioner for Refugees

UNHRC United Nations Human Rights Commission

UNICEF United Nations Children's Fund

UNIFEM United Nations Fund for Women

UNOPS United Nations Operations Support

UNRWA	United Nations Relief and Works Agency
UNTAET	United Nations Transitional Authority for East Timor
URC	University Research Corporation
US	United States
USACE	United States Army Corps of Engineers
USAEP	U.S.-Asia Environmental Partnership
USAID	United States Agency for International Development
USDA	United States Department of Agriculture
USDH	United States Direct Hire
USEA	United States Energy Association
USF	University of San Francisco
USFS	United States Forest Service
USFDA	U.S. Food and Drug Administration
USG	United States Government
USIA	United States Information Agency
USIS	United States Information Service
USSR	Union of Soviet Socialist Republics
USTR	United States Trade Representative
UTC	United Technologies Corporation
VC	Vulnerable Children
VCT	Voluntary Counseling and Testing
VfP	Volunteers for Prosperity
VHS	Voluntary Health Services
VITA	Volunteers in Technical Assistance
VOA	Voice of America
VOCA	Volunteers in Overseas Cooperative Assistance
VOT	Victims of Torture
VSC	Voluntary Surgical Contraceptive
WAEN	West Africa Enterprise Network
WAJ	Water Authority of Jordan
WARP	West African Regional Program
WB	World Bank (International Bank for Reconstruction and Development)
WCC	World Coast Conference
WCF	Working Capital Fund
WFF	World Wildlife Federation
WFP	World Food Program (United Nations)
WHO	World Health Organization
WID	Women in Development
WMO	World Meteorological Organization
WOCCU	World Council of Credit Unions
WRS	Water Resource Sustainability
WSSCC	Water Supply and Sanitation Collaborative Council
WSSD	World Summit on Sustainable Development
WTO	World Trade Organization
WWF	World Wildlife Fund
YMCA	Young Men's Christian Association

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