

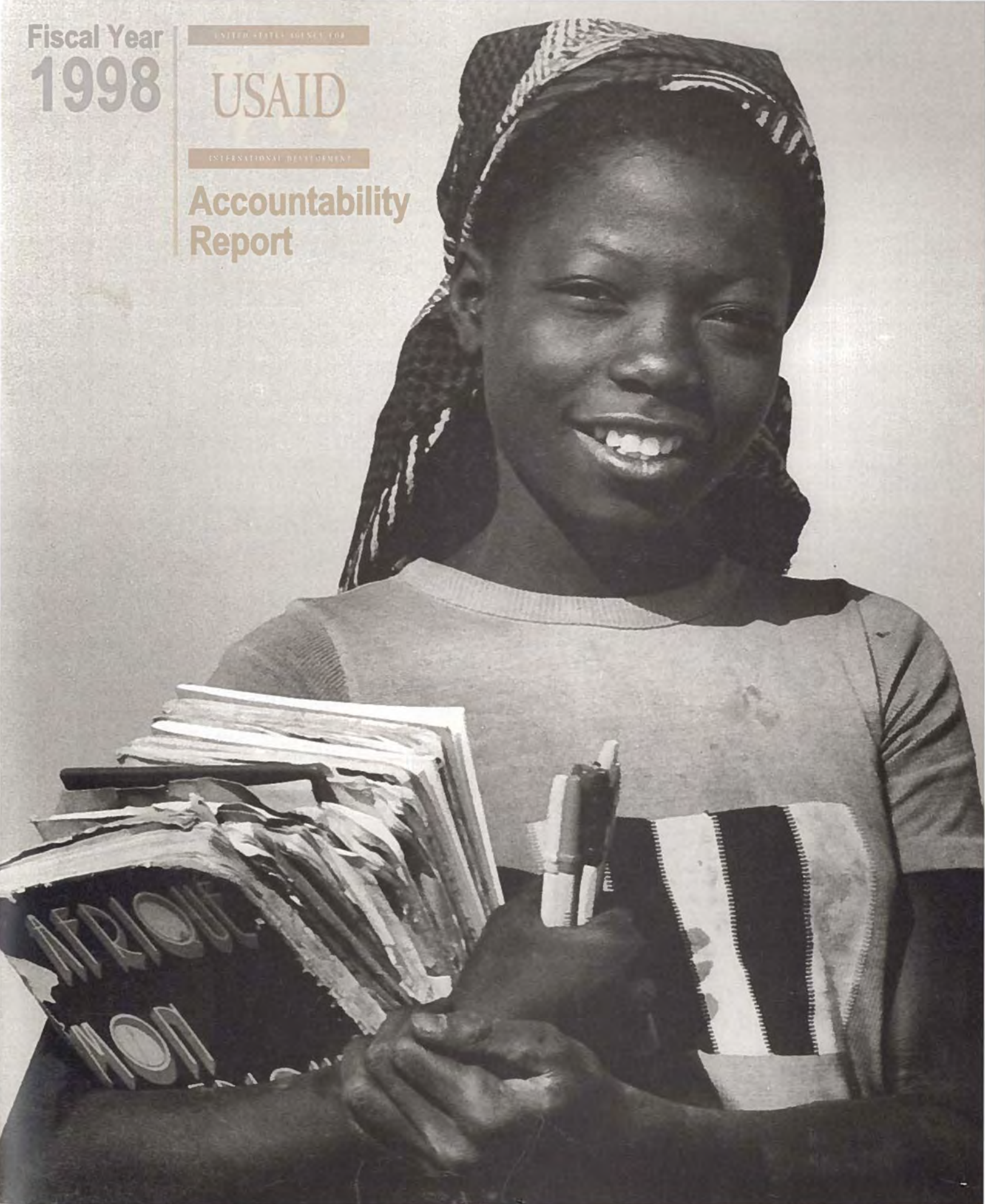
Fiscal Year
1998

UNITED STATES AGENCY FOR

USAID

INTERNATIONAL DEVELOPMENT

**Accountability
Report**



U.S. Agency for International Development

Foreword

This fiscal year 1998 Accountability Report is the U.S. Agency for International Development's first report under a pilot program to streamline and consolidate certain statutory financial management and performance reports into a single accountability document. The report consolidates the reporting requirements of the Chief Financial Officers Act, the Government Performance and Results Act, Prompt Pay Act, Debt Collection Act, Federal Managers Financial Integrity Act, and Management's Report on Final Action on the Office of the Inspector General audit recommendations.

The report presents the Agency's financial statements and the Inspector General opinion on the statements, internal controls, and compliance with laws and regulations. It also highlights USAID's performance and the effectiveness of its programs in achieving U.S. foreign policy objectives.

All comments regarding the content and presentation of this report are welcome. An electronic copy of this report, as well as a more detailed performance report for the fiscal year, is available on the Agency's World Wide Web site, www.info.usaid.gov.

Comments may be addressed to

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cover photo: Carolyn Watson
this page: Carolyn Watson



Administrator's Message

We live in a world where the most immediate threats to the United States are global problems that respect no borders. Poverty, hunger, disease, oppression, rapid population growth, environmental damage, and the spread of conflicts from failed states increasingly affect the affairs of nations around the world.

The mission of the U.S. Agency for International Development is to support the people of developing and transitional countries in their efforts to achieve economic and social stability. Since 1961, USAID has been helping people help themselves, while advancing America's interests and foreign policy objectives around the world. We have been a leader and innovator, pioneering research and development to improve health conditions, protect the environment, promote economic growth, build human capacity, support democracy, and provide humanitarian assistance. But our work is not done.

The end of the Cold War brought new challenges that require a renewed foreign assistance program and a more efficient and effective USAID to administer it. To meet this challenge, the Agency embarked upon an extensive reform program. Today, we have taken important steps to create an Agency that is increasingly efficient, results oriented, and able to advance an integrated, strategic approach to development.

We have refocused our objectives and developed a clearly articulated set of development strategies. USAID's

strategic plan supports specific U.S. national interests as defined in the *International Affairs Strategic Plan*, a document USAID and the Department



of State worked in close collaboration to prepare.

USAID is committed to managing for results and to implementing the Government Performance and Results Act. The Agency's results reporting system is not yet where we would like it to be. This is not surprising, given the lack of timely, comprehensive, and quality data about developing countries. However, we believe that it provides USAID managers and our stakeholders an increasingly reliable basis for assessing our progress against objectives.

We have a clear vision of an integrated management information system that will meet our needs into the 21st

century and improve compliance with financial management and other system requirements. We have dedicated our information technology resources for this year and next to completing year 2000 repairs, replacing the core accounting system, and ensuring that the current systems will support Agency operations until new systems are in place. Our new chief financial officer is working closely with the chief information officer to ensure that the financial management system will support the Agency's business needs and will work properly with other systems that will be improved or replaced.

This fiscal year 1998 Accountability Report highlights our accomplishments as well as our setbacks and challenges. Our accomplishments reflect our commitment to achieving the best possible development results from our investments. We are confident that the changes that have taken place and are under way will improve accountability and put us in an increasingly better position to demonstrate results.

A handwritten signature in black ink, which appears to read "J. Brian Atwood". The signature is written in a cursive, flowing style.

—J. BRIAN ATWOOD
Administrator

U.S. Agency for International Development



USAID's humanitarian and development work reflects our nation's most cherished values: the belief that every citizen, regardless of where that man or woman comes from, who their parents might be, what kind of village or family they call home, is entitled to his or her rightful share of personal, political, economic, and civic power.

—HILLARY RODHAM CLINTON

Mission and Organization

The U.S. Agency for International Development is the federal agency that manages U.S. foreign economic and humanitarian assistance programs. USAID's predecessors go back to the Truman administration, the Marshall Plan, reconstruction after World War II, and the Point Four Program. In 1961 President Kennedy signed the Foreign Affairs Assistance Act into law, thus creating the entity USAID.

Since that time, USAID has been the primary U.S. agent to help countries recover from disaster, escape poverty, and become more democratic. USAID's mission is to contribute to U.S. national interests by supporting the people of developing and transitional countries in their efforts to achieve enduring economic and social progress and to participate more fully in resolving the problems of their countries and the world.

USAID is headquartered in Washington, D.C., with a field presence around the globe. The Agency implements development assistance in four regions of the world—Africa, Asia and the Near East, Latin America and the Caribbean, and Central and Eastern Europe and the New Independent States of the former Soviet Union. There are 70 field-based missions implementing development programs, and three regional services offices. In addition, USAID has offices in five countries providing coordination with other donor nations.

USAID's staffing levels have declined by 35 percent since 1993. At the end of fiscal year 1998, the Agency had 2,152 U.S. direct-hire employees, excluding the Office of the Inspector General. USAID also had a little over 4,000 employees hired locally in the countries in which development programs are implemented, and some 800 U.S. nationals hired through various temporary mechanisms. The Agency's field presence and the cadre of local staff give the United States a wealth of

Figure 2.1. Total USAID Staffing Levels 1993–98

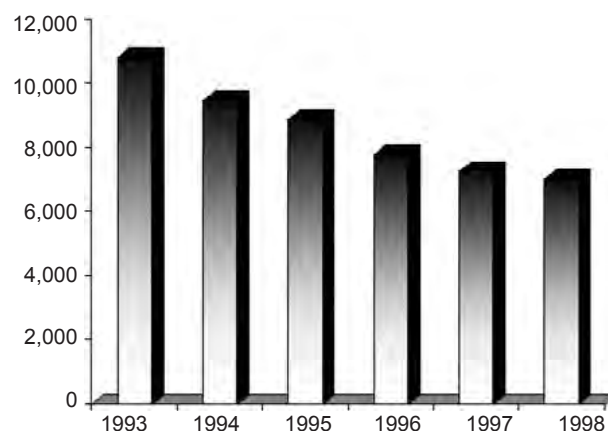
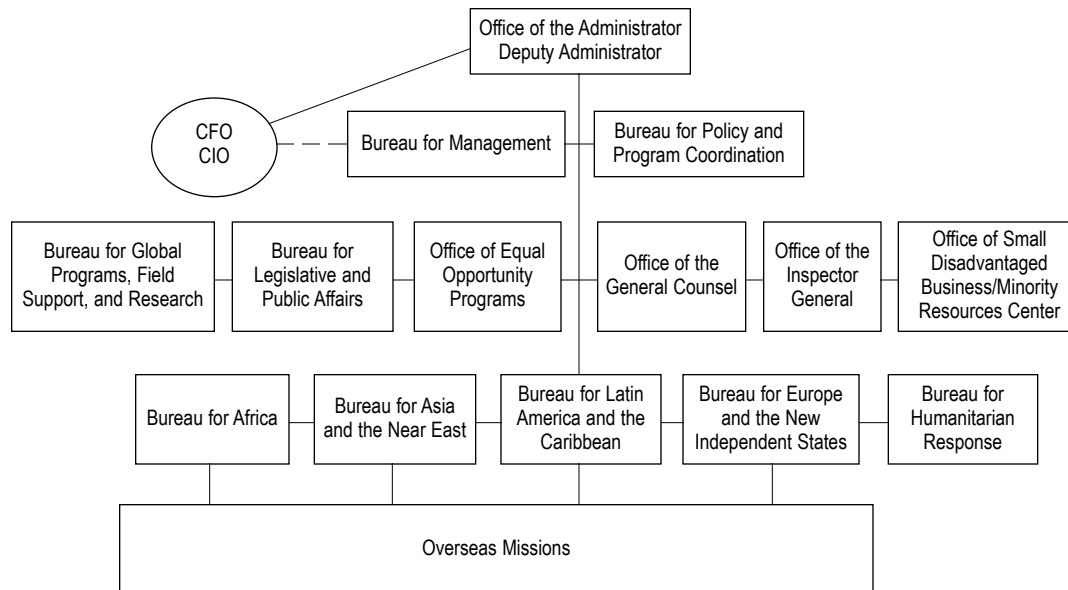


Figure 2.2. U.S. Agency for International Development Organizational Chart



practical understanding of local conditions. (Figure 2.1 illustrates the trend in overall staffing.)

USAID works in close partnership with private voluntary organizations (PVOs), indigenous nongovernmental organizations (NGOs), universities, American business, international agencies, host countries, other donor nations, and other U.S. government agencies. USAID contracts with more than 3,500 American companies and over 300 U.S.-based PVOs.

Table 2.1 (next page) shows the allocation of USAID's nearly \$7 billion budget authority in fiscal year 1998. This level represents less than one half of 1 percent of the federal budget.

Program Performance

USAID organizes its activities around seven goal areas—six development goals and a management goal. This accountability report provides an

overview of the progress in implementing those goals.

Performance information on the development goals reflects fiscal year 1997 data because of problems inherent in gathering data from many countries and developing reliable trend analysis. The results reported are primarily the outcome of several years of effort by many organizations, including host governments and other donors.

USAID dedicates itself to six goal areas that are critical to sustainable development:

- **Broad-based economic growth.** To help the world's poor, development programs must provide them with opportunities to improve their lives. In 1997, 145 Agency programs supported broad-based economic growth and agricultural development. USAID's programs were designed to generate growth in per capita income, growth in agriculture, a reduction in poverty, and openness and

greater reliance on private markets.

- **Advancing democracy.**

Emerging democracies around the world have just begun consolidating the institutions of a civic society. USAID works with local and national governments and American, international, and indigenous PVOs and NGOs to support free and fair elections, to teach the skills of democratic governance, and to help citizens empower themselves and become full participants in their own development. In 1997, 85 percent of USAID's country and regional programs provided assistance in democracy and governance.

- **Building human capacity.**

Without a decent education children become adults with limited opportunities. Improving education in poor countries leads to faster, more sustainable development and helps strong democratic institutions emerge. USAID

works to expand access to education for underserved populations, especially girls and women. In addition, the Agency helps host country institutions of higher education contribute more to sustainable development. In 1997, USAID allocated most of its funding for human capacity development to basic education. Funding was provided for programs in Africa, Latin America and the Caribbean, and Asia and the Near East. Of that, 96 percent went to basic education for children.

■ **Stabilizing population growth and protecting human health.**

Population growth and population pressures both cause and affect ecological, economic, political, and social transformations. USAID supports long-term approaches to population and health problems, including support for family-planning systems and services, vaccination and immunization programs, AIDS prevention, and child and maternal nutrition programs. Over 60 percent of USAID's country, regional, and headquarters offices had population, health, and nutrition objectives in 1997. In addition, USAID, with other donors, began developing a global strategic plan to address malaria, tuberculosis, the containment of antimicrobial resistance, and the improvement of surveillance systems.

■ **Promoting sound environmental management.**

Environmental changes often go unnoticed until a crisis erupts. Rapid population growth, industrialization, and urbanization all increase the demands made of the earth. In fiscal year 1997, USAID had environmental pro-

grams in more than 60 countries worldwide. The Agency increased efforts to slow global climate change, improve natural resource management, and improve energy services. This reflects, in part, the Agency's increased attention to transborder issues, such as global climate change.

■ **Providing humanitarian assistance.**

Humanitarian assistance saves lives, reduces suffering, and reestablishes the conditions necessary for political and economic development. USAID provides humanitarian assistance in response to natural disasters, man-made disasters, and complex emergencies. In all its humanitarian assistance efforts, the Agency works closely with other donors, international organizations, and other U.S. agencies. In 1997, 20 countries and regional and central USAID offices supported humanitarian assistance activities. Fifteen missions and offices pursued objectives of assisting with the transition from prolonged crisis and conflict to resuming progress

toward development, nine countries and offices pursued objectives supporting relief, and nine supported prevention and mitigation of the effects of disasters.

The Program Performance section of this Accountability Report provides illustrative results in these goal areas. They are drawn from a more extensive Agency Performance Report for fiscal year 1998.

Management Performance

USAID's management goal focuses on changes necessary to remain a premier development agency. USAID must meet significant challenges to achieve this goal. It must adapt to a changing political and economic context of U.S. foreign policy and become more efficient, flexible, and consistent in purpose. The Agency is addressing these challenges by enhancing leadership and management capacity.

USAID has provided leadership in development since its early days. Currently, it leads research in popula-

Table 2.1. U.S. Agency for International Development Budget Authority (in \$ millions)

Item	Fiscal Year 1998 (actual)
Development assistance	1,725
International disaster assistance	190
Credit programs	11
Operating expenses—USAID	479
Operating expenses—USAID/IG	29
Economic support fund	2,420
Eastern Europe	485
Former Soviet Union	771
Food for Peace	867
Total	6,977

tion, girls education, and the environment, among other goal areas.

USAID's leadership to achieve development results is manifested in several ways. In addition to research, technical leadership is exercised through the technologies the Agency develops and the technical capacities it maintains. USAID has made significant investments in these areas.

USAID's ability to achieve development results depends largely on the quality of partnerships it forges. Effective partnerships ensure greater consistency of purpose and multiply the Agency's own capabilities and resources. The Agency carried out a number of activities in this area and identified three partner-centered objectives in its fiscal year 1999 performance plan. USAID implements much of the development assistance program through PVOs and NGOs. In fiscal year 1997, the Agency obligated 34 percent of its development assistance through these organizations. The Agency also coordinates its policies and initiatives with many federal agencies.

USAID has implemented management changes to improve its ability to manage for results and to implement the Government Performance and Results Act. Reporting of performance data by operating units increased from 40 percent in fiscal year 1997 to 64 percent in fiscal year 1998. For the past two years, when performance data are combined with other information on a USAID objective in a country, field staff and headquarters technical reviewers agreed about 80 percent of the time on what performance had been toward achieving the objective. USAID has streamlined processes relating to performance monitoring, reporting, and reviewing, and work has begun to clarify guidance for developing strategic plans.

In late 1993, USAID initiated a 'reengineering' of its program operations systems and procedures guided by a set of core values. During fiscal year 1998, USAID surveyed staff and partner perceptions about how well the Agency has reoriented itself toward these values and how the reforms have affected the delivery of programs. Although most participants felt that the increased emphasis on results has positively influenced USAID's work, most identified unintended consequences. Steps were taken during fiscal year 1998 to address concerns raised.

Continued staff reductions and limited hiring are greatly affecting the Agency's capacity to operate effectively. During fiscal year 1998, procedures were put in place to ensure adequate work-force planning, decision-making, and management. USAID has also concentrated on improving acquisition and assistance by improving communication with staff and partners and testing innovative contracting techniques.

It is crucial that information be available to staff and partners when needed. Improvements are needed in USAID's information resources in order to fully meet this need and fully comply with federal requirements. During fiscal year 1998, USAID implemented a new information technology management strategy. The new approach identifies and incorporates best practices and lessons learned industrywide to improve management discipline and overall performance. The Agency also took steps to repair its integrated management information system, which has not performed as planned.

Making USAID's mission-critical systems year-2000 compliant has been the top information technology priority. Four of five such systems were renovated during fiscal year 1998 and are now being tested. The fifth system is

being renovated and will be implemented by July 1999.

The management performance section of this Accountability Report provides more detailed information on activities to enhance USAID's leadership position and strengthen management capacity.

Financial Highlights

USAID's Inspector General's Office was unable to express an opinion on the fiscal year 1998 financial statements because its audit scope was impaired by systems that were unable to produce complete, reliable, timely, and consistent financial statements. An executive summary of the inspector general's audit on the financial statements, internal controls, and compliance for fiscal year 1998 is included in the report.

USAID's financial management systems do not comply substantially with federal financial management system requirements, applicable federal accounting standards, and the U.S. Standard General Ledger at the transaction level. The system also fails to meet some important financial management systems requirements, such as the capability to produce all required financial reports and other management information at an acceptable level of timeliness and accuracy.

USAID completed an extensive review of core accounting business processes and simplified them. Some core accounting functions were transferred to another federal agency and to a private bank. The goal is to simplify the core accounting business needs in order to use a commercial off-the-shelf core accounting product with few modifications. USAID plans to acquire the accounting system in fiscal year 1999 and to implement it in Washington and field missions during

fiscal years 2000 through 2002. A new chief financial officer (CFO) is taking the lead in these improvements. The CFO has also initiated improvements to strengthen the CFO organization and functions.

The Financial Highlights section of this report analyzes the financial statements and reports on USAID activities related to commercial payments, debt management, and civil monetary penalties.

Management Controls

USAID identified nine material weaknesses in management controls. These include deficiencies related to financial management systems and procedures, information resources management, and program performance reporting. Correcting the material weaknesses is one of the Agency's highest management priorities. USAID has established detailed corrective action plans with key milestones and target dates. A committee of senior Agency officials is providing oversight of the process.

USAID views audit follow-up as a fundamental component of its effort to implement adequate management controls and to improve the efficiency and effectiveness of programs and operations. The Agency works in partnership with the Office of the Inspector General to ensure timely and appropriate responses to audit recommendations and to improve the overall quality of the audit management program.

The Management Control section of this report discusses in detail the material weaknesses and the report on management actions in response to audit recommendations required by the Inspector General Act.

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

USAID Mission Statement



photo credit: Carolyn Watson

USAID is the primary U.S. agent to help countries recover from disaster, escape poverty, and become more democratic. The Agency mission—helping people achieve economic and social stability—is part of the U.S. leadership role, a role that has become more important since the Cold War ended. The Agency represents this country's commitment to addressing the world's problems and helping others help themselves. It is a big job.

This section of the Accountability Report assesses how well the Agency has used the funds Congress has made available. Performance data reported here are from fiscal year 1997 because of the problems inherent in gathering data from many countries and developing reliable trend analyses. For USAID, unlike many federal agencies, current-year financial inputs—especially program funds—have little or nothing to do with current-year performance. This partly reflects the obligation process: program funds from one fiscal year are rarely obligated until late in the year and are disbursed largely in subsequent years. It also reflects the fact that the type of work USAID does takes several years to reach fruition. With the partial exception of humanitarian assistance, results reported here are the outcome of several years of effort by many organizations, including the host country and other multi-lateral and bilateral donors.

The illustrative results reported here are drawn from the 1998 Agency Performance Report (March 1999). Because USAID works in many ways in many countries, preparing a com-

prehensive report is no simple task. The Agency is involved in nearly every sphere of development, including democracy, economic growth, education, the environment, emergency relief, and health and family planning. The Agency's activities reflect the needs and priorities of the countries receiving assistance and the work and concerns of other donors and development partners, such as the U.S. Congress, universities, the private sector, and private voluntary organizations.

Reporting on Performance

Agency performance is reported in three ways. First, the Agency looks at high-level country development indicators. The Agency tracks some 25 indicators for the seven goal areas for each country receiving USAID assistance. These indicators are useful for drawing a broad picture of whether countries are making progress but they are usually difficult to link to specific Agency activities and are rarely reported in a timely fashion. Second, the Agency looks at results from specific programs. Program results are achieved by USAID activities but are difficult to aggregate or compare with results in other countries because every country situation is different. Describing every result from every country activity would require an encyclopedic volume. In the past few years, USAID has been developing a third source of performance information. Each operating unit is required to establish performance monitoring plans for each of its programs. Units

(with agreement from headquarters) select indicators, set targets, and measure performance against those targets, to determine whether activities are achieving targets. Fiscal year 1997 is the second year for which these data have been available, and remarkable progress has been made in managing the process. In FY96, indicators, targets, and measured data existed for only 39 percent of Agency strategic objectives; in FY97, that figure rose to 63 percent. Because activities usually have a five-year cycle, our target is to reach 80 percent.

This performance-monitoring framework provides information to the Agency that permits it to make better strategic choices. After comparing how countries or regions perform, the Agency can decide which sectors merit attention. The framework is also a tool for evaluating how countries or regions are progressing and where attention is needed. The collective framework is good for development and helps make assistance from

USAID and other donors more effective.

But raw numbers do not tell the whole story. To ensure that we are not misled by data, the Agency reviews each country program and independently ranks whether it is meeting, exceeding, or failing to meet expected performance. All of these measurements—country development indicators, program results, unit performance reviews, Agency rankings of country programs, and findings from an independent goal area review conducted by the Policy and Program Coordination Bureau—are combined to come up with a composite evaluation of Agency performance.

USAID organizes its activities around seven goal areas, two of which were new in 1997. The strategic plan adopted that year added the education goal human capacity built through education and training and the leadership and management goal USAID remains a premier development agency. The first gives education the attention it deserves. The management goal helps the Agency focus on how it does business.

It is important to understand the extent to which USAID cooperates with other U.S. agencies and other international actors. A recent evaluation of USAID's child survival program in Egypt, for example, found that the Agency was providing only about 6 percent of the annual

USAID GOAL AREAS

- **Broad-based economic growth and agricultural development encouraged**
- **Democracy and good governance strengthened**
- **Human capacity built through education and training**
- **World population stabilized and human health protected**
- **The world's environment protected for long-term sustainability**
- **Lives saved, suffering reduced, and conditions for political and economic development reestablished**
- **USAID remains a premier development agency**

resources available to this highly successful program. The most important contributor, of course, was Egypt itself, supplemented by multilateral donors such as UNICEF, the World Health Organization, and the World Bank, as well as a host of bilateral donors and voluntary organizations. But the 6 percent figure markedly understates USAID's contribution to the program. The Agency has been building this program for several years and contributed a greater portion in past years. Moreover, USAID's leadership role literally made host country and donor interventions possible. The Agency has provided direction to the programs for developing child survival technologies, including immunizations; programs protecting against diarrhea, dehydration, and acute respiratory infections; and family planning and other interventions. In short, USAID's contribution was not limited to the 6 percent that mere financial data show.



USAID works cooperatively not only with other donors and the host countries themselves but with other U.S. government organizations. From the current year, humanitarian assistance to Bosnia was provided by several USAID offices—the Office of Foreign Disaster Assistance (OFDA), the Office of Transition Initiatives (OTI), Food for Peace (FFP), and the Bureau for Europe and the New Independent States (ENI)—which contribute a mix of expertise to development assistance. Efforts by these offices meshed with activities by the Department of Defense and the Department of State (see figure 3.1).

The highlights of performance monitoring that follow are organized to reflect different sources of data. After a discussion of each goal area, there is a description of what USAID is doing and how country development indicators are moving. Then selected program results are highlighted. Full information, including every country's progress measured by USAID's development indicators, is reported in the Agency Performance Report.

Promoting Broad-Based Economic Growth

In May 1996 the international development community, including USAID, adopted the formidable year 2015 challenge of reducing by half the proportion of people living in extreme poverty. About 85 percent of the world's poor subsist in low-income developing countries and in regions where poverty is widespread. To help them, development programs must provide the poor with opportunities to improve their lives.

Economic growth around the world not only helps give the poor those opportunities but directly benefits the

Figure 3.1. U.S. Humanitarian Assistance to Bosnia FY97



U.S. economy as well. U.S. exports to developing countries in 1997 alone totaled \$275 billion, up from \$239 billion in 1996, for an annual growth rate of 13 percent. This compares with \$78 billion in exports to developing countries, and a growth rate of 9 percent, just 10 years earlier. Clearly, economic performance in developing countries has a large and growing impact on the U.S. economy. Promoting it is in the U.S. national interest.

In 1997, 145 Agency programs supported broad-based economic growth and agricultural development in 76 operating units (countries, regional offices, and central bureaus). These programs represent 29 percent of all USAID programs and 84 percent of all operating units. Of these programs, 67

were in developing countries, 68 were in countries making the transition from communism to market economies, and 10 were globally oriented.

Country Development Indicators

The Agency's strategic plan lists the following performance goals for economic growth:

- Average annual growth rates in real per capita income above 1 percent
- Average annual growth in agriculture at least as high as population growth in low-income countries



photo credit: Suchinta Wijesooriya

- Proportion of the population in poverty reduced by 25 percent in 10 years (in line with the target of 50 percent reduction by 2015)



- Greater openness and reliance on private markets (reflected in improved scores for economic freedom and in expanded trade and direct foreign investment)
- Less reliance on concessional foreign aid in advanced (middle-income) countries

Progress in achieving these goals is discussed in the following pages.

ANNUAL GROWTH IN PER CAPITA INCOME

Per capita income growth for 1994–97 improved substantially in all regions over the base period, 1992–96. About 66 percent of recipient countries achieved per capita income growth higher than 1 percent, compared with about 45 percent in the base period. By region, the proportion of countries with such growth ranged from 50 percent (and rising) for **Europe and the New Independent States** to 100 percent for **Asia and the Near East**.

The magnitude of the impacts of the Asian financial crisis on USAID recipients in Asia and the Near East are not yet clear (with the exception of Indonesia, which has been severely affected). While USAID expects some slowing in growth, many Asia and the Near East recipients may continue to exceed the benchmark for 1995–98 and beyond.

GROWTH IN AGRICULTURE

The vast majority of low-income countries achieved agricultural growth at least as rapid as their population growth. Worldwide, 35 of 48 USAID-assisted countries reported meeting this goal; six countries did not. Performance in sub-Saharan Africa was particularly dramatic. Overall, 25 out of 29 USAID recipients in this region (86 percent) achieved this performance goal for 1994–96, compared with only 35 percent for the 1993–95 base period. This is primarily because of improved agricultural performance and secondarily because of gradually declining population growth rates.

REDUCTION IN POVERTY

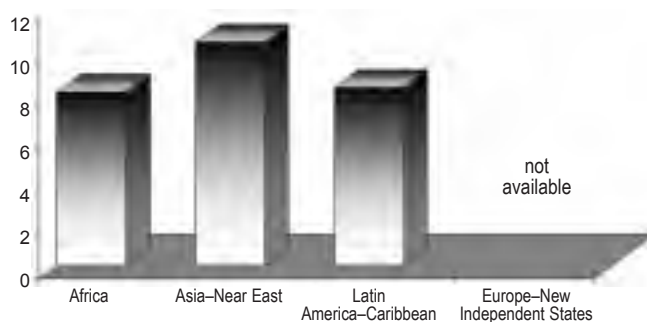
USAID's goal of reducing the proportion of the population in poverty by

25 percent reflects the longer term goals of the Development Assistance Committee of the Organization for Economic Cooperation and Development, to which the United States subscribes. The World Bank has estimated the growth rates required to achieve the poverty target by region:

- 1.9 percent for sub-Saharan Africa
- 1.8 percent for Latin America and the Caribbean
- 1.3 percent for South Asia
- 1.2 percent for East Asia
- 0.3 percent for the Middle East and North Africa
- 0.8 percent for Europe and Central Asia

Overall, incomes have been expanding in line with the performance goal in 57 percent of USAID recipient countries, including low-income Asia, which accounts for the bulk of global poverty. Asia and Near East countries, which account for two thirds of global poverty (outside China), all had income growth above their target.

Figure 3.2. Annual Average Trade Growth (percent)



Note: Baseline years vary from country to country.

OPENNESS AND GREATER RELIANCE ON PRIVATE MARKETS

To assess increased openness and greater reliance on private markets, USAID looks at three indicators: scores for economic freedom, direct foreign investment, and trade.

The Heritage Foundation compiles annual scores for economic freedom. These aim to measure the degree to which the policy and institutional setting supports well-functioning private markets that reward individual initiative. Overall, scores for economic freedom improved in 68 percent of USAID-recipient countries, remained unchanged for about 10 percent, and declined in 22 percent. Economic freedom improved in at least 60 percent of the countries in each region.

As for direct foreign investment, this indicator has mushroomed in USAID recipient countries from annual levels of \$19 billion in 1992–93 to more than \$51 billion for 1995–96. However, it tends to be concentrated in relatively few countries.

Regarding increased trade, USAID's analysis looks at export growth, a reliable determinant of a country's capacity to achieve and sustain overall growth in incomes, output, and productive employment. For the most part, performance improved over the baseline period, as shown in figure 3.2. A number of poor countries, in particular, enjoyed considerable success increasing exports.

Highlights Of Economic Growth Program Results

Many of the Agency's programs to expand and strengthen critical private markets try to improve policies and regulations (including fiscal and mone-

tary policies) and create an enabling environment for private sector activities. They also concentrate on privatizing state-owned enterprises, developing private enterprises' and entrepreneurs' ability to take advantage of domestic and international market opportunities, and promoting the development of sound, efficient financial markets. Some of USAID's approaches to strengthening markets are highlighted here.

In **Romania**, the Agency tried to improve the enabling environment for entrepreneurs. In 1997, USAID-supported laws governing enterprise development were passed. The Agency also strengthened the capacity of business associations to serve as conduits for training small and medium-size enterprises in management and financial planning. In 1997, sales by small and medium-size enterprises grew 43 percent, compared with 30 percent growth in 1996. In **Kyrgyzstan**, despite USAID efforts to develop the private sector, results in 1997 fell short of targets. The government delayed privatizing some of the largest industrial enterprises and suspended privatization for the nine largest enterprises. As a result, the private sector share of gross domestic product remained at the 1996 level of

78 percent, short of the 80 percent target. However, commercial law and policies were significantly improved, as were trade and investment policy. To do this, USAID helped draft and implement 75 key laws and regulations.

In **Ghana**, USAID supported ongoing reform in trade and investment policy. The Agency helped improve private exporters' capacity to compete in international markets, contributing to a boost in nontraditional exports from \$227 million in 1996 to \$300 million in 1997. Nontraditional exports, including Asian vegetables, furniture, handicrafts, medicinal plants, and textiles, now make up 20 percent of all Ghanaian export earnings.

In **Egypt**, USAID technical assistance accelerated the pace of privatization and helped expand and deepen the range of financial services available. The value of shares traded on the Cairo and Alexandria securities exchanges more than doubled over 1996 levels, reaching 24 billion Egyptian pounds (roughly \$7.1 billion) and exceeding USAID's 1997 target of 12 billion pounds.

In **Peru**, USAID improves small farmers' access to market opportunities by



providing them with the training, technical assistance, and access to credit needed to make them more productive and competitive. The Agency tar-



gets the production and marketing of such nontraditional exports as coffee, garlic, dry beans, handicrafts, alpaca sweaters, and natural vegetable dye. The export value of these products grew from \$354 million in 1995 to more than \$472 million in 1997, exceeding the \$420 million target. These targeted exports are produced mainly by women, who directly benefit from expanded markets. The poor saw their real per capita incomes (in 1994 dollars) reach about \$507 in 1997, up from \$447 in 1994 (meeting the program target). The share of the population classified as “extremely poor” declined from 18.9 percent in 1996 to 13 percent in 1997, exceeding the target of 17 percent. One important outcome is that chronic malnutrition among children fell from 26 percent in 1996 to 24 percent in 1997 (meeting the 1997 target).

USAID programs supporting more rapid and enhanced agricultural development and food security typically encourage liberalization of markets for agricultural inputs such as fertilizer and seeds—and production.

They also promote crop diversification and the production of high-value crops that may be exported or processed domestically. They facilitate the adoption of high-yielding or improved varieties and promote activities that enhance food security by increasing the availability of and access to food. The following highlights are representative of USAID activities and results in this area for 1997.

In **Egypt**, USAID’s efforts to liberalize the agricultural sector through privatization, policy dialog, and the promotion of agricultural exports helped increase the private sector’s share in agricultural gross domestic product from 62 percent in 1996 to 74 percent in 1997. They also helped boost total growth in agricultural production to 3.4 percent in 1997 (up from 3.1 percent in 1996).

In **Bolivia**, Title II food programs were used to promote food security. Projects were designed to improve rural infrastructure including farm-to-market roads and irrigation systems. As a result, incomes of assisted rural households rose more than 50 percent, from \$713 in 1996 to \$1,136 in 1997, exceeding the 1997 target of \$749.

USAID programs promote expanded and more equitable access to economic opportunity for the rural and urban poor. They do this by stimulating microenterprise, improving the policy and enabling environment for small farmers and businesses, and increasing access to credit and technology. Many programs undertake improving the access of women and other disadvantaged groups to financial resources. The following programs demonstrate the impact of USAID-funded activities.

In **Uganda**, where overall economic performance has been strong, nearly 14,000 small rural enterprises and microenterprises borrowed money under USAID’s program in 1997, more than twice the target of 6,000. That represents a dramatic increase over the 1995 level of 3,800. The average loan size was under \$1,500, and an estimated 70 percent of borrowers were women. By contrast, program results in **Tanzania**—where economic performance was weak—fell short of expectations. The level of investment in urban small firms and microenterprises rose from \$0.2 million in 1996 to \$1.7 million in 1997 (exceeding the target of \$1 million), but investment in *rural* enterprises fell short of the \$2.5 million target.

Results in USAID’s microenterprise development program in **Bolivia** remained impressive in 1997. The number of active borrowers increased from about 130,000 in 1996 to 163,000 in 1997, exceeding the target of 150,000. Among the 1997 borrowers, 72 percent were women. As a result of Agency investments in microenterprises, more than 36,000 permanent jobs were created. The combined value of loan portfolios of USAID-assisted financial institutions serving the poor increased from \$77 million in 1996 to \$106 million in 1997.

Advancing Democracy

USAID emphasizes the following four goals in its strategy for strengthening democracy and governance:

Rule of law and human rights. A predictable legal system with a fair, transparent, and effective judiciary protects citizens against the arbitrary use of state authority and lawless acts of individuals or organizations. Improving the administration of justice

Table 3.1. Changes in 1997 Freedom House Rating Of Countries Receiving USAID Assistance

<i>Change in Overall Rating</i>	
<i>From "Partly Free" to "Free"</i>	<i>From "Not Free" to "Partly Free"</i>
El Salvador Honduras	Azerbaijan Liberia
<i>Change in Rating on Political Rights</i>	
<i>Improvement</i>	<i>Decline</i>
Bolivia El Salvador Georgia Honduras Kenya Liberia Mexico	Brazil Cambodia Ecuador Malawi Mali Peru
<i>Change in Rating on Civil Liberties</i>	
<i>Improvement</i>	<i>Decline</i>
Azerbaijan Ecuador Ghana Liberia Romania Tajikistan	Mali Mexico Peru

helps guarantee the fair application of existing laws. Together, improved administration of justice and a sound legal system ensure that all people, including women and minorities, enjoy equal rights and protection under the law.

Credible and competitive political processes. Free and fair elections help consolidate democracy by providing a vehicle for the peaceful transfer of power in accordance with expressed public will. Citizens and opponents to ruling governments have a voice in the political process when they can vote and participate in campaigns and election monitoring. Moreover, by allowing voters to endorse or reject their political leaders, elections encourage governing institutions to be accountable and responsive.

A politically active civil society.

One of the hallmarks of democracy is a vibrant civil society. It helps ensure good governance by facilitating citizen participation in, and oversight of, government actions. Civil society includes many kinds of organizations independent of the government, such as cooperatives, labor unions, business associations, religious groups, and women's organizations.

Transparent and accountable government institutions.

Public accountability, responsiveness, and transparency play an essential role in consolidating democracy. Decentralization initiatives, for example, which promote democracy at the local level, encourage broader citizen participation and create mechanisms for addressing community concerns. Strengthening the legislative and executive branches, establishing civilian control over the military, and promot-

ing transparency and ethical standards in government build public confidence in political processes and institutions.

In 1997, 85 percent of USAID's country and regional programs provided assistance to democracy and governance.

Country Development Indicators

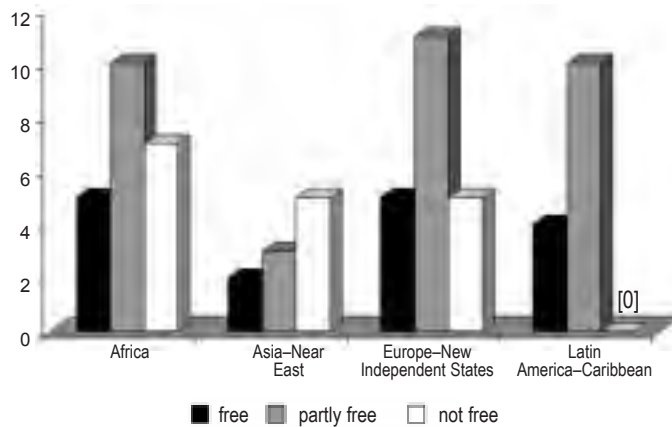
USAID relies on several sources to track the progress of democracy and governance worldwide. The primary measure of democratic status is a country's score on the Freedom House survey. Although Freedom House scores do not directly measure USAID's assistance for democracy and governance, they do provide important information on country development trends.

Political rights enable people to participate freely in the political process. These rights include open elections, real power for elected officials or representatives, a role for opposition groups, the absence of military and foreign control, and access (for members of cultural, ethnic, religious, and other minorities) to the policymaking process.

Civil liberties are the freedoms to develop views, institutions, and personal autonomy apart from the state. These liberties include free media, open public discussion, an independent judiciary, personal security, guarantees of human rights, the freedom to organize and act, and freedom from extreme government indifference and corruption.

Each country was given a composite ranking of "free," "partly free," or "not free," the ranking being based on the average of the scores for political rights and civil liberties. On average, according to Freedom House, the

Figure 3.3. 1997 Freedom House Rating of USAID-Assisted Countries



democratic status of USAID-assisted countries improved in 1997. Four countries moved up on Freedom House's overall scale and none declined (see table 3.1). The best performance was in the Latin America and the Caribbean region, where **Honduras** and **El Salvador** improved from "partly free" to "free." In Europe and the New Independent States, **Azerbaijan** moved from "not free" to "partly free." In Africa, **Liberia** changed from "not free" to "partly free." The general rating did not change for any country in the Asia and the Near East region.

Except in the Asia and the Near East region, countries categorized as "partly free" predominate (figure 3.3 compares country ratings). In other words, many countries have undergone only a partial transition to democracy. Where transitions to democracy are incomplete, often the executive branch continues to monopolize power, the judiciary is weak, there is little or no local government capacity, and the democratic culture needed for broad citizen participation is still in an early stage of development.

Highlights Of Democracy Program Results

Results in the four broad areas of assistance for strengthening democracy and governance demonstrate the impact of a wide range of activities pursued around the world, including technical assistance to both civil society and governing institutions. Such assistance provides the basis for progress toward democracy and governance goals.

RULE OF LAW AND HUMAN RIGHTS

USAID and its partners help countries formulate and implement legal reforms, improve the administration of justice, and increase citizens' access to justice. They also promote awareness of citizens' rights. The Agency also provides funding, training, and organizational support to civil society organizations that promote public awareness of citizens' rights and pressure governments to respect human rights.

Elements of judicial reform are featured in all democracy programs in Latin America and the Caribbean. In the **Dominican Republic**, for example, the Agency funded and helped organize forums and events that highlighted the importance of the transparent, nonpoliticized selection of Supreme Court justices. Civil society organizations formed a coalition that worked with major newspapers and television stations to press the National Judicial Council to publicly solicit nominations for the new Supreme Court. In response, the Judicial Council held public hearings live on national television. This process culminated with live coverage of the council's vote on the 16 new justices.





photo credit: OTI staff

FREE AND FAIR ELECTIONS

Successful elections require a certain institutional capacity and citizens who understand the electoral process. USAID and its partners offer advice on legislation for election reform and help build the capacity of the electoral administration and election monitors. They also provide training to strengthen the organization and professionalism of political parties and to promote civic education aimed at creating a better informed electorate and encouraging women and the disadvantaged to participate in elections.

In the Latin America and Caribbean (LAC) region, the Agency has considerable experience providing assistance to help ensure free and fair elections. In **Paraguay**, technical assistance to the Electoral Tribunal and to local NGOs contributed to the success of Paraguay's May 1998 elections. In 1997 the Electoral Tribunal met an ambitious target: to add 250,000 voters to the national voter list. To achieve this objective, NGOs for the first time used data collected to target for registration the most disenfranchised segments of the population. As a result, about 80 percent of the eligible electorate, 45 percent of them women, registered to vote. The Organization of American

Twelve of the 16 selected had the support of civil society; five were women. This remarkably open and transparent process for selecting the Supreme Court was unprecedented in Dominican history.

Although judicial systems in the Europe and the New Independent States region have made progress, many problems remain. Difficulties range from continued limits on judicial independence to inadequate financial support for essential judicial reform. In **Russia**, for example, USAID efforts launched in 1993 to promote a jury trial initiative faltered when the Russian government failed to provide the funding needed. In 1997 the Agency revised its strategy and shifted to one of training lawyers in commercial law, an activity that does not require government financial support.

In the Africa and Asia and the Near East regions, USAID provided only limited rule-of-law programming but achieved important results in 1997, especially in women's rights. With Agency organizational and financial support, five women's legal rights organizations in **Tanzania** conducted sensitization campaigns through workshops, seminars, and women-only

focus groups. At the time, the Tanzanian Parliament planned to enact legislation that discriminated against women in land inheritance. After one of these workshops, as part of an effort funded by several donors, women's nongovernmental organizations (NGOs) formed a coalition to draw public attention to the weaknesses of the proposed bill.

Acknowledging the coalition's concerns and lobbying efforts, Parliament delayed adoption of the bill—a remarkable achievement for the women's groups.



photo credit: Search for Common Ground

States and other experts in international elections described this process as among the “cleanest” in Latin America.

While free and fair elections have become routine in many countries in Latin America, in other parts of the world citizens continue to struggle for this basic democratic right. In 1997 a wide array of politically active **Kenyan** NGOs (many of them USAID funded) formed a coalition with religious groups and opposition parties to demand electoral and constitutional reform. In response to this pressure, the incumbent government implemented electoral reforms and agreed to discuss changes to the constitution. After four and a half years of delays, this concession was a formidable achievement for the coalition. Although the December 1997 election was still flawed, the campaign-monitoring group reported less intimidation and more freedom for people to express their views than during the 1992 campaign.

In Asia and the Near East (ANE), USAID works to increase the participation of women and the disadvantaged in elections. In **Bangladesh**, USAID provided assistance and funding to NGOs working to increase voter awareness in target communities

through group meetings, mass rallies, radio, television, and village theater productions. As a result of these efforts, 306 members of village-based associations of the poor won seats on local elected bodies in the December 1997 elections. This was well above the 1996 baseline of five members and more than triple the target of 100. The election of these villagers will help ensure that the needs of the poor and disadvantaged are addressed by local government.

In ENI, USAID assistance for election reform combines support for the electoral commission with public education and the promotion of domestic monitors and independent media. In **Kyrgyzstan** during 1997, the Agency worked closely with the electoral commission, encouraging it to sponsor the first-ever televised debate between candidates competing in an election. Six candidates vying for one seat participated in a 90-minute debate broadcast on television and radio throughout the country. Televising the debate raised citizens’ awareness of the issues and the electoral process. The candidates described the event as a “real” example of democracy in action and called for similar debates in future elections.

POLITICALLY ACTIVE CIVIL SOCIETY

Civil society organizations play an essential role in democratic political systems. Worldwide, they serve as public advocates, participate in policy debates, and provide services. Many of them tackle such difficult issues as corruption in government, exploitative labor practices, destruction of the environment, and equality for women and the disadvantaged. Others help citizens find their own solutions to problems, rather than rely on government action. Forming associations and coalitions allows members of civil society to share their experiences and have more impact on national policy.

Nigeria provides a good example of how the Agency promotes coalitions, networks, and partnerships among NGOs. In 1997, local citizens’ organizations formed a coalition to advocate against traditional practices degrading to women. As a result of coalition efforts, the compulsory mourning period for widows was reduced from one year to six months in one state, and another state ruled that widows could inherit their late husband’s estate. Massive public awareness campaigns and the activities of legal clinics established under USAID’s democracy and governance program led to a landmark judgment in favor of women’s inheritance rights. In Nigeria’s heavily patriarchal eastern region, this development was revolutionary.

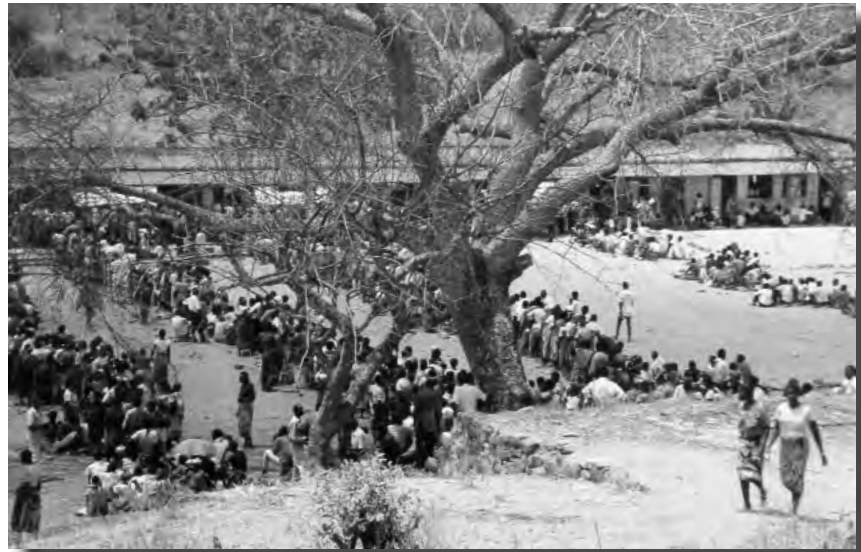
The ENI Bureau views the strengthening of civil society as key to the long-term success of transitions to democracy in that region. In 1997, civil society organizations achieved notable success in **Romania**. USAID helped more than 425 NGOs in that country form a national coalition that successfully advocated enactment of a new sponsorship law. This law provides tax deductions for individual contributions to NGOs, increases the tax deduction for corporate contributions, and pro-



vides tax concessions for radio and television stations that air public service announcements for NGOs. Encouraged by this success, these NGOs have developed another coalition to advocate passage of more comprehensive NGO reform legislation.

In the ANE region, civil society programming supports NGOs that advocate on behalf of women and the disadvantaged. In the **Philippines** USAID helped bring together coalitions of the disadvantaged to heighten the impact of their participation in the public policy arena. In 1997, Agency-supported indigenous ethnic groups for the first time came together to comment on the proposed Indigenous People's Rights Act. Before the bill was signed in October 1997, both the Senate and House addressed the issues raised by the ethnic groups. Passage of the act fulfilled a long-standing constitutional mandate to recognize indigenous peoples' cultural, political, and economic rights.

USAID pursues fewer direct activities to strengthen civil society in the **Latin America and Caribbean** region. Instead, efforts to strengthen civil society are incorporated into other democracy objectives, such as reform of judicial and electoral processes. In **Peru** the Agency funded a civic awareness activity in which an NGO provided survey data and other information to the Women's Commission in Congress and the Ombudsman's Office of Women's Rights. This contributed to passage of legislation mandating that women make up at least 25 percent of the party lists of candidates for town council and the Congress. This requirement increases the likelihood of women being elected to public office.



TRANSPARENT, ACCOUNTABLE GOVERNMENT INSTITUTIONS

USAID recognizes the need to balance efforts to strengthen civic demand for change with efforts to build the capacity that allows government institutions to respond to such demands. To help strengthen government institutions, the Agency provides training to members of the executive and legislative branches, both nationally and locally. It also promotes greater understanding between institutions in government and civil society through training sessions and organized exchanges that bring groups from civil society and decision-makers together.

The Agency works to improve the decision-making capability of legislatures in all four regions. After receiving training from USAID, parliamentary committees in **Namibia** have increased the number of public hearings held. In 1997, 42 percent of the bills considered received public comment, well above the target of 25 percent. The National Assembly used public comment to shape amendments to eight of nine bills it reviewed in 1997. In addition to promoting citizen participation in 1997, the National Assembly asserted its oversight role by amending the national budget for the first time.

Agency efforts to strengthen government institutions also try to improve transparency and accountability.

USAID helped the independent audit agency in **El Salvador** improve its ability to conduct and enforce audits. As a result, the agency adopted a more aggressive auditing program to tackle government corruption. In 1997, it completed 286 audits, a significant increase over the 75 conducted since the program began in 1995. The number of audits performed and wider dissemination of audit findings demonstrated the agency's commitment to greater transparency in public finance.

Efforts to improve transparency and public participation in government policymaking and implementation are not always successful. In **Malawi**, limited government support and lack of agreement about project objectives undermined progress toward increased government transparency. As a result, USAID ended this component of its democracy strategy there.

Decentralization depends on local governments having enough funds to carry out their mandates. In **South Africa** the Agency helped the government of the Northwest Province implement a revenue collection program that increased local income by millions of rands. The program decreased



the province's dependence on revenue sharing with the central government. Three other provinces have now expressed interest in replicating the system.

In 1997 the National Association of Mayors in **El Salvador** achieved its first major policy success. A broad-based coalition of mayors lobbied to secure passage of a law granting a fixed 6 percent budget transfer from the central government to municipalities. Encouraged by this achievement, the association is pressing for other items on its policy reform agenda, such as broadening local taxing authority, strengthening citizen participation, and improving relations with the private sector.

By contrast, efforts to increase participation in rural government in **Egypt** fell short of expectations because leaders in Cairo were reluctant to transfer meaningful authority to lower levels of government. Still, USAID found that many Egyptians want to become more actively engaged in development at the village level. An independent review commissioned by the Agency stressed the value of pursuing such increased participation but concluded that the mission should adopt more realistic targets for transferring authority.

Building Human Capacity

A decent education is crucial in the modern world; without it, children become adults with limited opportunities. In poor countries, improving education leads to faster, more sustainable economic and social development and helps strong democratic institutions emerge. The goal of building human capacity encompasses Agency objectives to improve basic education and higher education.

To strengthen basic education, USAID works to expand access to quality basic education for underserved populations, especially girls and women. The Agency places special emphasis on expanding and improving primary education. It also supports pre-primary and lower-secondary education where conditions warrant, as well as literacy programs for adults and out-of-school children.

In 1997, USAID allocated most of its funding for human capacity development to basic education. The Agency provided (in round numbers) \$128 million for basic education in three regions—Africa, Latin America and the Caribbean, and Asia and the Near

East. Of that, \$123 million (96 percent) went to basic education for children. The remaining \$5 million supported adult literacy programs.

To strengthen higher education, the Agency tries especially to help host-country institutions of higher education contribute more to sustainable development. Colleges and universities in many developing and transitional countries could support development more by training the next generation of political and professional leaders, conducting research on scientific and social problems, and providing fuller access to the world's rapidly expanding store of scientific and technological knowledge. Increasingly, they are being called on to improve systems of basic education, open their doors to the traditionally underserved, and participate more actively in finding solutions to local and national problems. To support this transformation, USAID creates partnerships between host-country colleges and universities and their local business and government counterparts, as well as the U.S. higher education community.

Country Development Indicators

Despite considerable diversity among countries, there are discernible patterns in the challenges education faces in the regions where USAID operates. In **Africa, Asia and the Near East, and Latin America and the Caribbean**, the highest priorities are expanding access to, and improving the quality of, basic education.

FULL PRIMARY ENROLLMENT

The United States is committed to the target of full primary enrollment by 2015. A country is considered on track if its net primary school enrollment ratio is increasing at a rate fast enough

to reach full enrollment by 2015 *if that rate is sustained*.

Globally, trends are favorable. Seven of the 11 countries with USAID Basic Education activities are on track toward full primary enrollment. Unfortunately, many countries do not report these data, including all countries in the ENI region and 12 countries in the other three regions.

REDUCED GENDER GAP IN PRIMARY ENROLLMENT

USAID supports eliminating the difference between boys' and girls' enrollment rates in primary school. To track progress toward this goal, USAID calculates a gender gap measure for each USAID-assisted country based on its *gender equity ratio*, the ratio of girls' to boys' gross primary enrollment rates. Gender gaps for individual countries are averaged across each region.

Regional averages show a gradual narrowing of the gender gap in all three regions. Despite progress, however, the gender gap remains large in much of Africa and in many countries in Asia and the Near East.

PARTNERSHIPS THAT FACILITATE RESPONSIVENESS IN HIGHER EDUCATION

USAID fosters partnerships between institutions of higher education in the United States and overseas in an effort to help host-country colleges and universities become more involved in their country's development.

In **Egypt**, USAID-fostered partnerships helped Egyptian universities improve their research capacity. In **South Africa**, the Agency provided grants to strengthen 15 historically disadvantaged institutions. The Agency provided support to nine institutions in

Albania, Hungary, Latvia, Lithuania, Poland, and **Slovakia** to create or expand programs in management training and market economics, and to 11 institutions in **Russia** and **Ukraine** to strengthen educational programs in such areas as health, the environment, and economic restructuring.

In addition, USAID's Center for Human Capacity Development has supported the University Development Linkages project since 1992. This project was designed to strengthen long-term collaboration between U.S. and developing country colleges and universities. In 1997 the project supported the formation of 41 partnerships, including four with historically black U.S. colleges and universities, among others.

Highlights Of Education Program Results

Throughout Africa, communities are increasingly involved in educational reform, particularly in school management. With USAID assistance, communities in **Ethiopia, Ghana, Guinea, Mali,** and **Malawi** have formed committees of parents, teachers, and community leaders to evaluate and address the development and maintenance needs of local schools.

With USAID sponsorship, a U.S. private voluntary organization (PVO) actively promoted community-school partnerships in **Mali** and **Malawi**. The goal was to establish primary schools in remote areas where none had existed. Teachers for these schools, unlike teachers for traditional government schools, are selected by the community from among its own members and typically have no more than a primary school certificate. Teachers often give instruction in the local language and scale down and adapt the curriculum

to local needs. Classes are small (restricted to 30 in Mali and 50 in Malawi). Teachers receive substantial supervision and in-service training. Schools are provided with supplies and teaching and learning materials. The school calendar is adapted to local needs, and more effort is made to promote community participation than is typical in government schools. In both countries, villagers have become responsible for school construction; in Mali, villagers must pay teachers' salaries, too. In all subjects, children in the targeted schools performed as well as, or better than, children in government schools. Repetition and dropout rates in targeted schools were lower than in government schools, and promotion rates were higher.

FOOD AID USED TO BOOST SCHOOL COMPLETION

In **Bolivia**, USAID's Food for Education Program (Public Law 480, Title II) supported a school feeding program designed to encourage poor rural families to keep their children in school rather than allow them to drop out before graduation. Grade completion rates for boys and girls rose from 84 percent in 1996 to 89 percent in 1997 in Agency-targeted schools. For girls alone, the completion rate rose from 86 percent to 90 percent, while the dropout rate for both genders fell from 11 percent to 7 percent, well below the target of 9 percent in 1997.

HIGHER LITERACY RATES FOR WOMEN

Basic education programs supported by the Bureau for **Asia and the Near East** concentrate on educating girls and illiterate women. In **Nepal** the Agency supported literacy programs for adult women and out-of-school adolescent girls. These programs, implemented by local and international NGOs, helped raise the literacy rate



among adult women in the targeted districts from less than 22 percent in 1991 to 28 percent in 1996. In 1997, more than 100,000 women learned to read, write, and count in USAID-sponsored literacy classes.

SUSTAINED QUALITY OF EDUCATION

For many years, USAID has supported efforts by the Ministry of Education in **Honduras** to improve the quality of education. Among other things it has funded training in improved teaching methods and the development and adoption of improved textbooks. These efforts contributed to a 280 percent improvement in standardized test scores. The improved quality of schooling helped boost sixth-grade completion rates, which rose from 55 percent in 1986 to 73 percent in 1997.

Stabilizing Population Growth And Protecting Human Health

Population, health, and nutrition have been major USAID concerns since the Agency was established. The Agency recognizes that population growth and

population pressures both cause and affect ecological, economic, political, and social transformations.

The Agency has also taken on the challenges of reducing maternal mortality, reducing the impact of the HIV/AIDS pandemic, and reducing the threat of infectious diseases that pose serious public health risks. These are areas of vital importance to families in the United States as well as in developing countries, because the world is becoming a much smaller community.

Family planning remains a major part of the Agency's population-health

portfolio. USAID-supported country programs benefit from the Agency's global experience in increasing awareness, acceptability, and the use of family-planning methods. USAID concentrates on improving the quality and availability of services by strengthening programs run by government or local voluntary and for-profit organizations, or offered through commercial distribution channels. It conducts interpersonal and mass-communication programs to inform and motivate behavior change. To widen access to family-planning services, the Agency supports commercial marketing and community distribution of contraceptives. Finally, it develops innovative training methodologies to strengthen the managerial and technical skills of family-planning and health personnel.

In child health, the Agency supports cost-effective programs that promote breast-feeding, the control and treatment of diarrheal diseases, the control of pneumonia and meningitis, food supplementation, immunization against childhood diseases, and provision of potable water and sanitation. One of the more recent initiatives, carried out with the World Health Organization and other donors in conjunction with host governments, is an effort to provide combined preventive and curative



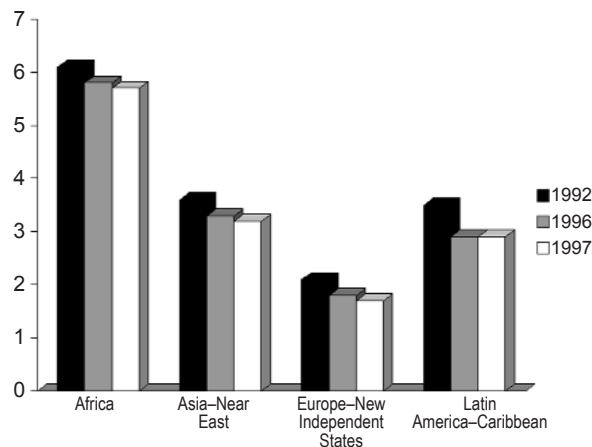
services. The initiative is known as Integrated Management of Childhood Illness.

Some 600,000 women die each year from complications of pregnancy and childbirth. When a mother dies, the risk of death for her children under age 5 increases markedly. Agency programs in maternal health, therefore, serve a dual purpose, promoting the health of both women and children. Programs that concentrate on family planning and reproductive health, maternal nutrition, sexually transmitted infections, prenatal care, and the accessibility and quality of maternal health services reduce the morbidity and mortality associated with pregnancy.

The HIV/AIDS pandemic is an increasingly serious threat to health, as well as economic and social development. In 1997 the worldwide incidence of new HIV infections was estimated at 5.8 million among adults and children. USAID is the largest single donor in HIV/AIDS prevention. The Agency has communications programs to encourage behavior change, social marketing programs to encourage the use of condoms, and programs to control sexually transmitted infections. It also supports behavioral research, the development of epidemiological survey systems, monitoring and evaluation, and policy reform.

Other infectious diseases persist in the developing world, predominantly among infants and children. The Agency reduces morbidity and mortality by promoting basic child health services, such as vaccination, treatment of acute respiratory infections, prevention and treatment of malaria, and control of diarrheal diseases with oral rehydration therapy. In recent years, adult health has been increasingly threatened by infectious diseases such as malaria and tuberculosis. Treatment is becoming more difficult

Figure 3.4. Regional Total Fertility Rates (number of children per woman)



Source: U.S. Census Bureau.
Weighted averages for USAID-assisted countries.

because of antimicrobial resistance to drugs. In 1997, USAID, with other donors, began developing a global strategic plan to address four areas: malaria, tuberculosis, the containment of antimicrobial resistance, and the improvement of surveillance systems.

Of the 95 USAID country, regional, and headquarters offices, 58 had population, health, and nutrition objectives in 1997.

Country Development Indicators

In its strategic plan, USAID established performance goals for each major area of population, health, and nutrition. By the year 2007, USAID, along with other partners, is expected to achieve the following:

- A 20 percent reduction in average fertility rates
- A 25 percent reduction in average mortality rates for infants and children under 5
- A reduction in the proportion of underweight children under 3

LOWER FERTILITY RATES

Figure 3.4 shows the progress made through fiscal year 1997 in reducing average fertility rates by 20 percent between 1992 and 1997.

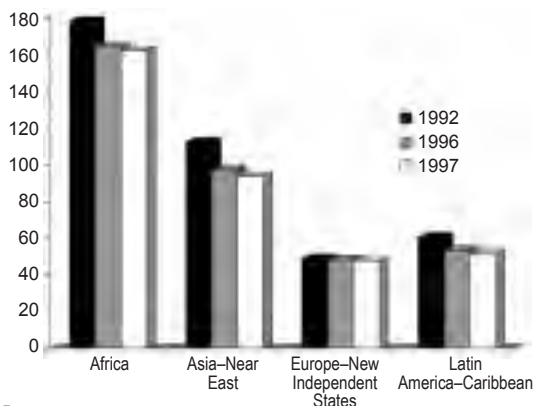
LOWER CHILD MORTALITY RATES

USAID's goal to reduce under-5 mortality rates by 25 percent by 2007 reflects goals articulated at the World Summit for Children in 1990. USAID and other donors have done significant work in child survival programming and, as figure 3.5 shows, have made progress toward meeting that goal.

Highlights Of Population/Health Program Results

USAID-supported interventions achieved significant results in each of the five goal areas (family planning, child health, maternal health, control of HIV/AIDS, and control of other infectious diseases).

Figure 3.5. Regional Under-5 Mortality Rates (per 1,000 live births)



Source: U.S. Census Bureau.
Weighted averages for USAID-assisted countries.

FEWER UNINTENDED AND MISTIMED PREGNANCIES

Thus, for example, Egypt's modern contraceptive prevalence rate rose from 45 percent in 1995 to 52 percent in 1997. More than 61 percent of Indonesian women now use modern family-planning methods. In Peru, local NGOs provide family-planning and reproductive health services to more than 200,000 users.

In **Bolivia** in 1997, 40,000 new users of reproductive health services were registered in nongovernmental health network programs that receive funding and technical support from the Agency. This was a 110 percent increase over 1996. The Agency-funded social-marketing program doubled contraceptive sales over 1996 levels: condom sales increased from 2.5 to 5 million, and oral contraceptive sales increased from 350,000 to 600,000 cycles. Agency assistance in expanding access to, and increasing advertisements for, contraceptives contributed to these improvements.

REDUCED MORTALITY FOR INFANTS AND CHILDREN

The proportion of children fully immunized by age 1 rose from 43 per-

cent in 1996 to 49 percent in 1997 in 28 Agency-assisted countries. In 1997, USAID launched a primary health care initiative, Integrated Management of Childhood Illness, in 41 countries. The Agency supported research to develop more effective vaccines for polio, malaria, and acute respiratory illness. And it launched the vitamin-A initiative to reach high-risk populations in priority countries.

Under a partnership between Providence Hospital in Rhode Island and the Kosice Teaching Hospital in **Slovakia**, USAID provided support for training and equipment for the Slovakia hospital's neonatal intensive care unit. Early identification of high-risk mothers and infants lowered neonatal mortality from 11 per 1,000 newborns in 1995 to 6.2 per 1,000 in 1997.

Honduras has had remarkable results improving child health. As of 1997 it had the best record in Central America for children vaccinated against diphtheria, polio, tuberculosis, and measles—at or above 95 percent since 1993. USAID completed its 17-year rural water and sanitation construction program. Under that program, the Agency built more than 1,440 water and sanitation systems in rural areas, providing more than 858,600 people

with safe drinking water. Health improvements were dramatic: diarrheal diseases dropped from the leading to the third cause of death among infants. This suggests that Agency successes in child survival are being sustained over the long term. Setbacks are likely, however, as a result of Hurricane Mitch.

REDUCED MATERNAL MORTALITY

Morocco has achieved unprecedented advances in reducing maternal mortality. In three years (1995–97), maternal mortality fell from 332 to 228 per 100,000 births. Contributing to this success was a two-pronged government strategy: a sophisticated public education and advocacy campaign coupled with the introduction of improved essential obstetric care in hospitals in two regions.

Micronutrient initiatives continued to make remarkable improvements in maternal health. In **Nepal**, a USAID-sponsored field study in 1996–97 found that vitamin-A supplements to pregnant women reduced maternal mortality by nearly 40 percent. USAID committed itself to helping extend vitamin-A coverage to all districts of Nepal by the year 2001.

In **Russia**, USAID has sponsored model family-planning centers, which provide services to the community and serve as training sites. In six pilot sites, the number of abortions dropped significantly in the first three quarters of 1997 (compared with the same period in 1996). The drop was highest in Vladivostok (36 percent), followed by Inanovo City (22 percent) and Leningradski (14 percent).

REDUCED SPREAD OF HIV/AIDS

In July 1997 in **Zimbabwe**, USAID launched a female condom, under the brand name CARE. This was the culmi-



nation of an aggressive national campaign waged by Zimbabwean women to pressure the government to approve the female condom. In the first four weeks, 46,000 female condoms were sold in three cities; within a year, 126,000 were sold—four times the target.

In **India** two complementary programs, one in the public sector and one in the private, brought about significant behavioral changes. Two of the three male risk groups—truck drivers and their helpers and male factory workers—said they had had fewer nonregular sexual partnerships in the past year. The percentage of truck drivers and their helpers who reported visiting at least one sex worker during the past year dropped from 38 percent to 27 percent. Moreover, the proportion of men who used condoms with their nonregular sex partners increased from 37 percent to 47 percent in 1997.

Promoting Sound Environmental Management

USAID's environmental goal—protecting the world's environment for long-

term sustainability—has long been considered USAID's silent goal. Environmental changes often go unnoticed until a crisis erupts. Rapid population growth, industrialization, and urbanization all increase the demands made of the earth. The effects are alarming. Productive croplands disappear, deserts enlarge, rich oceans are overfished, and large inland lakes are drained or polluted. Wetlands are lost to urban sprawl and agricultural expansion. Essential ecosystems such as tropical forests and coral reefs are often destroyed or severely damaged for short-term economic gain.

USAID works closely with its development partners worldwide to pursue five objectives: 1) reduce the threat of global climate change, 2) conserve biological diversity, 3) promote improved urbanization and better pollution management, 4) expand the provision of environmentally sound energy services, and 5) promote sustainable natural resource management. In fiscal year 1997 the Agency helped prevent or lessen environmental damage in more than 60 countries worldwide. New environmental programs in Africa and Latin America and the Caribbean accounted for most of this progress. The Agency increased efforts to slow global climate change,

improve natural resource management, and improve energy services. These changes reflect, in part, the Agency's increased attention to transborder issues, such as global climate change.

Country Development Indicators

Tracking progress toward USAID's strategic environmental goals involves developing indicators of environmental change and understanding how they fluctuate and are influenced by Agency programs and activities. USAID has developed or adopted the following indicators to help identify trends in environmental status and measure progress against the Agency's performance plan:

- National environmental management strategies completed
- Nationally protected areas (in hectares [and square miles] and as a percentage)
- Carbon dioxide emissions, average annual rate of growth
- Percentage of urban population with access to safe drinking water



- Percentage of urban population with access to sanitation services
- Gross domestic product per unit of energy use (energy efficiency)
- Percentage of energy production from renewable sources
- Annual change in total forest area (in hectares [and square miles] and as a percentage)

NATIONAL STRATEGIES

A government's commitment to a cleaner environment and to better management of natural resources is crucial to sustainable development, but commitment and management are difficult to measure and interpret. The strength of a country's environmental policies reflects the priority its government assigns to environmental degradation. Many countries have completed national environmental action plans or similar environmental strategies in the past decade. Of USAID-assisted countries, 83 percent have completed them in **sub-Saharan Africa**, 71 percent in the **Asia-Near East** region, 53 percent in **Latin America and the Caribbean**, and 48 percent in **Central and Eastern Europe and the New Independent States**. Another 10 per-



cent of USAID-assisted countries are preparing action plans. Still more are updating existing plans. USAID is well on its way to achieving its goal set forth in the Development Assistance Committee's document "Shaping the 21st Century" by 2005.

NATIONAL PROTECTED AREAS

Biodiversity is essential to environmental and economic sustainability. The approach most countries have taken to conserving biodiversity is to establish systems of national parks, wildlife refuges, forest reserves,

marine sanctuaries, and other formally protected areas. More than 900 million hectares (3.5 million square miles) of the earth's surface are officially designated as protected, an area nearly equal in size to the continental United States.

Some experts recommend setting aside 10 percent to 15 percent of lands as protected areas. As of 1994, the most recent data available, **sub-Saharan Africa** has 6.8 percent (78 million hectares, or 300,800 square miles) of its area protected, **Asia-Near East** and **North Africa** have 6 percent (46 million hectares, or 177,000 square miles), **Central and Eastern Europe and the New Independent States** have 4 percent (83 million hectares, or 319,000 square miles), and **Latin America and the Caribbean** have 9 percent (74 million hectares, or 285,000 square miles). Each of these protected areas is at least 1,000 hectares (4 square miles) and includes national parks, natural monuments, nature reserves or wildlife sanctuaries, protected landscapes and seascapes, and scientific reserves with limited public access. (Numbers have been rounded where appropriate.)



photo credit: Eric Fajer



photo credit: Blumhagen

REDUCED CARBON DIOXIDE EMISSIONS

Trends for carbon dioxide emissions, energy efficiency, renewable energy sources, and climate change are not encouraging. Global energy use has risen nearly 70 percent since 1971 and is expected to continue rising over the next several decades. As energy use rises, so do greenhouse gas emissions. Fossil fuels supply roughly 90 percent of the world's commercial energy and account for more than 80 percent of carbon dioxide released into the atmosphere.

Commercial energy consumption in developing countries will contribute about 40 percent of the world's carbon dioxide output by 2010. Much of this will come from China and South Asia, which depend heavily on coal. Unfortunately, market conditions favor reliance on cheap fossil fuels. Actions needed to improve energy efficiency include replacing fossil fuels with cleaner fuels and developing and adopting renewable energy technologies.

URBAN ACCESS TO SAFE WATER AND SANITATION

With rapid migration to the cities, the world's urban population is growing at four times the rate of the rural population. By the year 2000, more than half of the world's population will live in urban areas. Urban growth rates are exceptionally high in the Asian Pacific and Africa. Seventeen of the world's 21 "mega-cities" (more than 10 million people) are in developing countries.

Two of the main global indicators the Agency uses to measure progress toward sustainable urbanization are

access to safe drinking water and access to sanitation services. In USAID-assisted countries, 63 percent of the urban population has access to safe water in **sub-Saharan Africa**, 67 percent has access in **Asia-Near East and North Africa**, and 80 percent in **Latin America and the Caribbean**. Few countries in Eastern Europe and the former Soviet Union report on access to safe water, so regional data are unavailable.

Of USAID-assisted countries, 60 percent of the urban population has access to sanitation services in sub-Saharan Africa, 60 percent in Asia-Near East and North Africa, and 71 percent in Latin America and the Caribbean.

ANNUAL CHANGE IN TOTAL FOREST AREA

This is just one indicator the Agency considers in its approach to sustainable management of natural resources. From 1980 through 1995, the developing world lost nearly 200 million hectares (770,000 square miles) of forest. The greatest threats to forest area come from roads, mining, accidental fires, unchecked logging, slash-and-burn agriculture, and the conversion



photo credit: Eric Fajer

of land to cattle ranching and cash crops.

Highlights Of Environment Program Results

REDUCED THREAT OF GLOBAL CLIMATE CHANGE

Forestry programs are being used to fight greenhouse gas emissions in **Russia**, which accounts for more than 22 percent of the world's forested areas and 21 percent of its estimated timber volume. Russia's forests, which provide the largest land-based carbon storage or "sink" in the world, are a critical resource for buffering the effects of global climate change. Because these forests are threatened by logging and massive forest fires, USAID in 1997 initiated a reforestation program that increased the production of seedlings from 6,500 to more than 1.2 million. These seedlings are badly needed to replenish vast areas suffering from deforestation.

CONSERVATION OF BIOLOGICAL DIVERSITY

USAID supports one of the most comprehensive biodiversity conservation programs of any bilateral donor. The Agency has helped safeguard biological diversity through its efforts to 1) improve the management of biologically significant areas, 2) promote the sustainable use of biological resources, and 3) support the conservation of genetic diversity.

In Africa, **Uganda's** diverse ecosystems make it an important country for the Agency's biodiversity work. USAID, in partnership with the World Bank-Global Environment Facility, developed and supported the Bwindi Trust. One important outcome of trust activities in 1997 was the much antici-

pated mountain gorilla census. Conducted in the Bwindi Impenetrable National Park in Uganda, the trust census found 292 gorillas living in the park, meeting the 1997 target of 282-300 animals. Compared with 1991 data, these figures suggest that the park mountain gorilla population is stable, an indication of stability in the ecosystem.

URBAN POLLUTION MANAGEMENT

In 1997, USAID worked in 40 countries in Asia and the Near East, Africa, Europe, and Latin America to promote sustainable urbanization and improve urban pollution management. Under the Urban and Environmental Credit Program, more than 528,000 poor urban families received financing for mortgages, home improvement loans, potable water hookups, or sanitary sewer connections. To improve urban management, USAID worked with more than 40 city governments on raising revenues, implementing new financial accounting procedures, and applying tariff and fee reforms with the aim of recovering the costs of environmental improvements. To reduce urban pollution in 1997, the Agency promoted the adoption of 270 cleaner production policies and manufacturing processes in **Bolivia, Ecuador, Egypt, Indonesia, and Paraguay.**

Another way the Agency has addressed environmental issues in Asia is through an interagency program, the United States-Asia Environmental Partnership. In **India**, for example, an NGO-business partnership supported by US-AEP reduced solid waste from mango-processing plants by 90 percent. Each of 27 food-processing factories was dumping more than 2,000 tons of waste every harvest season. After training and consultation on clean production, the plants generated almost no solid waste and converted

the small amount remaining into other products.

MORE ENVIRONMENTALLY SOUND SERVICES

Most developing countries must expand their energy supplies to support sustainable development. USAID economic assistance programs are designed to foster private investment in clean energy, energy efficiency, and renewable energy in developing countries and economies in transition. These programs also foster a favorable environment for select U.S. exports and investment.

In 1997, for example, USAID helped form a partnership between Columbia Gas and the **Russian** utility Penzagaz to develop an automated customer information and payment system. Columbia helped Penzagaz establish a direct payment center to avoid costly bank transaction fees. This resulted in savings of more than \$61 million for Penzagaz.

In **Indonesia**, USAID worked with the government in early 1997 to establish policies and practices for a cleaner, more efficient power supply by tracking installed generation capacity from all renewable sources, including biomass, geothermal, solar, water, and wind. These new policies helped three geothermal plants generate more than 3,700 megawatts of new renewable energy in 1997.

SUSTAINABLE MANAGEMENT OF NATURAL RESOURCES

Natural resources are degraded, depleted, and used inefficiently in many parts of the developing world. Sustainable management depends on striking a workable balance between the preservation and renewal of resources and their use for economic well-being. Agency natural resource

programs include 1) improved management of coastal zones, forests, and water resources; 2) increased use of sustainable agricultural practices; and 3) enhanced public and community awareness of issues affecting the sustainability of natural resources—and how to address them.

Providing Humanitarian Assistance

Humanitarian assistance is an act of national conscience and an investment in the future. It is a response to U.S. values and ideals as it saves lives, reduces suffering, and protects health. USAID's humanitarian assistance goal is to save lives, reduce suffering associated with natural or man-made disasters, and reestablish the conditions necessary for political or economic development. The three following principles guide Agency programs in humanitarian assistance:

- Emergency response, centered on saving lives and reducing suffering, should simultaneously

lay a foundation for returning to sustainable development by supporting local capabilities and participation and reestablishing people's livelihood and self-sufficiency.

- Prevention and mitigation of the effects of disasters should be built into response programs.
- Timely, effective assistance to countries emerging from crisis may make the difference between a successful or failed transition.

USAID provides humanitarian assistance in three broad categories: natural disasters, man-made disasters, and complex emergencies. Natural disasters are caused by physical hazards such as drought, earthquake, fire, flood, and the outbreak of pests or disease. Man-made disasters are caused by human error in design, implementation, operation, or management, as when a building collapses or an industrial accident occurs. Complex emergencies may include natural disasters but are often caused or complicated by civil strife. They are manifested in hunger, injury, death, armed conflict, and displaced populations.



Traditionally, humanitarian assistance programs have stopped when basic needs of the people affected have been met. With the rise in importance of complex emergencies, the Agency has learned that a different kind of "humanitarian assistance" is needed if people are to make the transition from prolonged crisis and conflict to resuming progress toward development. This transition assistance can include demobilization of combatants, removal of landmines, or beginning to restore functioning governments and economic infrastructure.

In all its humanitarian assistance efforts, the Agency works closely with other donors, international organizations, private voluntary organizations, and other U.S. agencies. Its partnerships with other groups enable USAID to leverage and share resources. All results described below represent the combined effects of Agency and other-donor resources and activities.

In 1997, 20 countries and regional and central USAID offices supported one or more of the three main objectives



photo credit: CIHI

Table 3.2. Number of People Assisted by Bureau for Humanitarian Response Emergency Programs, FY97, by Region^a

Region	OFDA (percent reached, of those affected)	FFP (percent reached, of those targeted)
Africa	15,606,000 (59)	4,890,000 (61)
Asia and Near East	1,470,000 (13)	3,718,000 (83)
Europe and the New Independent States	1,539,000 (68)	2,982,000 (95)
Latin America and the Caribbean	143,000 (61)	^b
Total	18,766	11,590,000

Note: OFDA is the Office of Foreign Disaster Assistance; FFP is Food for Peace. In some emergencies, different USAID programs may reach the same beneficiaries.

^aOffice of Transition Initiatives programs (not included in table) include media activities that reach entire country populations, and demining activities that benefit refugees, returnees, merchants, and farmers who begin to use land and roads that are safe for travel. Determining the number of direct beneficiaries is difficult.

^bNo emergencies in this region required emergency food aid in 1997.

of humanitarian assistance: prevention, relief, or transition. Fifteen missions and offices pursued objectives of assisting with the transition process, nine countries and offices pursued objectives supporting relief, and nine supported prevention.

Country Development Indicators

Measuring the impact of humanitarian assistance programs is challenging. First, it is difficult to distinguish between various causes and effects. Second, USAID's country and regional programs operate at different levels and have different objectives, making an assessment of overall Agency performance difficult. Saving lives is the primary aim of most emergency programs, but preserving and promoting livelihoods is becoming equally important to achieving effective economic and political transitions.

USAID, together with multilateral and bilateral donors, is beginning to pilot-test and implement information systems that will be used to monitor Agency capacity for saving lives and reducing suffering in emergency situations. In a preliminary effort to measure the results of its efforts, the Agency selected the following indicators:

- Crude mortality rate in selected emergency situations
- Levels of acute malnutrition stable at, or declining to, acceptable levels in emergencies
- Number of people displaced by open regional conflict
- Changes in the number and classification of designated "postconflict transition" countries

Since humanitarian assistance operates in complex and fluid situations, these

indicators will be applied initially on a pilot basis to determine if data collection is feasible. Reporting on these indicators requires working with other donors and agencies to develop systems that collect and report these indicators regularly.

Highlights of Program Results

In 1997, USAID reached more than 11.5 million people with emergency food aid through Title II PL 480 programs, implemented primarily by private U.S. voluntary organizations and the World Food Program in 28 countries in Africa, Asia, and Europe (see table 3.2). The program provided 781,360 metric tons (796,987 tons) of Title II emergency food aid, valued at \$404 million.

The World Refugee Survey 1998 reports an estimated 13.6 million refugees and asylum seekers in 1997. USAID provided emergency food aid to more than 10 million, or 76 percent, of them. Much of this assistance was provided through the World Food Program.

The Agency's Office of Foreign Disaster Assistance provides emergency assistance primarily as health, sanitation, shelter, and water services. In 1997 the office spent \$140 million to help more than 18 million victims of 48 officially declared disasters in 46 countries. Of these, 13 were complex emergencies, 27 were natural disasters, and 8 were man-made emergencies.

USAID tries to ensure that the political processes are in place that are critical for enduring economic, political, and social progress. The Office of Transition Initiatives tries to strengthen democratic processes by rapidly implementing interventions designed to meet specific needs. In 1997 the office promoted peace and security,

making significant progress toward advancing political transitions in **Angola, Bosnia, Guatemala, Liberia,** and **Rwanda.** In all five countries, freedom of movement improved as the Agency helped make available objective, timely information on the economic, political, and social situation.

In addition to the figures shown in table 3.2, in 1997 the Bureau for Europe and the New Independent States supported more than 8.4 million of the most vulnerable populations in Central and Eastern Europe and the New Independent States, at a cost of more than \$79 million. All the countries in this region were undergoing economic, political, and social transitions. Several—**Armenia, Azerbaijan, Bosnia–Herzegovina, Georgia,** and **Tajikistan**—were also in conflict.

NATURAL DISASTERS

On 12 November 1996, an earthquake struck the Pacific Ocean close to Lima, **Peru,** the worst to strike the region since 1940. It killed and injured people in several cities, affecting more than 81,000. USAID provided emergency relief supplies, such as tents and blankets, for 56,000 displaced persons.



In early January 1997, drought in **Kenya** caused widespread crop failure, water scarcity, and deteriorating pasture, affecting 1.6 million people. USAID provided \$1.8 million to support drought relief and promote recovery. Through the World Food Program, the Agency provided 5,800 metric tons (5,916 tons) of emergency food aid, valued at more than \$2.5 million. Assistance efforts and the timely return of rains prevented a large-scale crisis.

MAN-MADE DISASTERS

Although man-made disasters do not generally cause significant physical damage, they do affect people's lives. Often countries and communities do

not have the capacity to respond to them. A fire in **Guinea–Bissau,** for example, left an entire community homeless, killed domestic animals, and destroyed grain stores. USAID restored people's homes and livelihoods by providing repair materials and replacing livestock.

After the collapse of high-risk investment schemes in late 1996, **Albania** was plunged into armed chaos in March 1997. Individuals and families suffered significant financial losses, and demonstrations escalated into violence. More than 2,000 people were seriously wounded and 180 killed. Thousands fled by boat across the Adriatic Sea to Italy. USAID provided supplies to hospitals that had an influx of victims of the armed violence.

COMPLEX EMERGENCIES

Complex emergencies involve a combination of factors, including political and ethnic violence and a breakdown of governance and social infrastructure. Affected populations need relief assistance while economic, political, or social issues are being resolved. In **Azerbaijan,** for example, there were more than 700,000 refugees and internally displaced persons as a result of the continued dispute between Azerbaijan and Armenia over the



photo credit: Bunnhagen

Nagorno Karabakh region. USAID implemented new programs during 1997 to handle emergency repairs (for health, safety, and sanitation) to public buildings used to house refugees and internally displaced persons. By the end of 1997, more than 21,000 families benefited from rehabilitated and winterized housing with safe electrical systems and working plumbing.

Agency activities in southern **Sudan** illustrate how the Agency links relief assistance to longer term objectives. USAID not only provided food aid but also supported the rehabilitation of local production, especially of agriculture and livestock, and helped develop local capacity in health and sanitation.

In 1997, USAID programs facilitated the resettlement of 80,000 internally displaced persons in their original areas and the gradual repatriation of 90,000 Sudanese refugees from northern Uganda. The Agency provided food and agricultural assistance to 25,000 former refugees and internally displaced persons. These programs, undertaken in concert with the U.S. Integrated Strategic Plan for Sudan, aimed to increase local capacity for food self-reliance and to facilitate viable resettlement options. By reducing ration sizes and distributing seeds and tools, the programs encouraged

local production, even among internally displaced people who did not know where they would resettle.

In southern Sudan, Agency resettlement activities coincided with the provision of agricultural tools, seeds, and medical services. In 1997, USAID programs provided primary and secondary health care to 1.8 million war-affected victims in government-held areas and to 2.6 million victims in rebel-held areas in the south. A locally trained mobile medical team provided public health care for an additional 144,080 war-affected people in areas where security was threatened. Agency programs provided potable water and sanitation to 49,000 war-affected people.

Liberia illustrates both the challenges of a complex emergency and the potential for progress. Throughout 1995 and 1996, close to two million people required emergency assistance. That number began to drop in 1997 as the disarmament process took hold



and, in July, as a new president was elected. USAID then shifted its emphasis from emergency assistance to the postwar transition and the rehabilitation of institutions and infrastructure. For example, in partnership with other donors, such as the European Union and the U.N. Food and Agriculture Organization, USAID had permanently resettled 150,000 internally displaced persons in rural areas by the end of 1997.



Management Performance

USAID strives to remain a premier bilateral development agency—indeed to be the best development agency in the world.

Being best doesn't mean being the biggest or most assertive, but rather being the most dynamic and productive. It means helping lead the development community in responding to the most significant challenges, identifying the most worthwhile objectives, operating the most efficiently and effectively, being recognized as a valued partner, achieving consistent successes, and having the greatest possible impact.

To remain a premier development agency in the 21st century, USAID must overcome significant challenges. It must adapt to the changing political and economic context of U.S. foreign policy. USAID must become more efficient, flexible, and consistent in purpose in the face of shrinking staff and declining budgets.

It must respond to increased congressional demands for accountability and impact, as reflected in the Government Performance and Results Act, the Government Management Reform Act, and related legislation.

The Agency is addressing these challenges through two performance objectives: *Enhanced Leadership to Achieve Development Results*, and *Enhanced Management Capacity to Achieve Results and Deliver Development Assistance Resources*. Various aspects of management performance are discussed below in two broad sections: Leadership for Results and Managing for Results.

Leadership for Results

Since the earliest days of the Agency, USAID has provided leadership in development. There has been a constant stream of research that, when applied, has changed the face of the globe: the eradication of smallpox and the "green revolution" are two old examples of this. Currently, USAID is the leader in population, girls' education, and the environment, among many other goal areas. This leadership is manifested and maintained in many ways as the discussion below will indicate.

Research and Technical Leadership

USAID exercises its technical leadership through the research it supports, the technology it develops, and the technical capacities it maintains. These investments strengthen USAID's technical capabilities, broaden its strategic vision, enhance its partnerships, and improve its performance. USAID investments in research and technical leadership have been significant.

- The Agency demonstrated how vitamin A supplements reduce child mortality rates. Joined by other donors, it led an initiative to ensure that in five to seven years 80 percent of at-risk children would have adequate vitamin A intake. The expected result is a 20-percent reduction in child mortality.

- The Agency has long provided support for the agricultural research and technology crucial for developing new crops, farming methods, and agribusiness.

USAID has also played a prominent role in promoting the use of information technology in development. It contributes to U.S. governmentwide information technology efforts in several ways. It actively promotes the global information infrastructure and the principles of open and universal access in all its endeavors. The Agency's comparative advantage lies in working with developing countries and in supporting telecommunications infrastructure (partly through policy reform) as well as development applications related to information technology. The Agency's Leland Initiative, begun in FY96, has already substantially improved information technology policy and use in more than a dozen African countries.

USAID has helped expand the global information infrastructure and broaden its benefits. In recent years, for example, the Agency supported initiatives such as the National Health Information System in Niger and helped reestablish and expand the database for the new Food Security and Market Information System in Rwanda. It helped set up electronic accounting in Georgia's central banking system and installed management information systems in Nicaragua's Central Ministry of Education. In building civil society in Lithuania, USAID strengthened the independent media.

Training is one of the Agency's most powerful tools for strengthening technical capacity. Indeed, training is important for achieving strategic objectives in nearly all Agency-assisted countries. The Agency works to ensure that such training is carefully planned, technically sound, efficiently delivered, and continuously improved. In the past two years, it made significant headway improving

training management, developing more effective partnerships, and enhancing host-country training capabilities.

- The Agency promoted the use of up-front stakeholder agreements (1,356 of them in FY98) that clearly describe intended roles, responsibilities, and outcomes to ensure that training is applied when trainees return to their host countries. Follow-up surveys indicate that about 80 percent of recent participants applied their training on the job and that nearly all of them did, in fact, return home.
- The Agency adopted new policies to ensure that people with disabilities can participate fully in all Agency-supported training opportunities.

Strengthened Partnerships

USAID's ability to achieve results depends largely on the quality of the partnerships it forges. From day-to-day delivery of grass-roots services to collaboration among governments on international mandates, the Agency has partnerships with many kinds of institutions. It forms partnerships with other donors to ensure that policies are harmonious, goals consistent, and programs complementary. It forms partnerships with host country governments to make sure Agency objectives are fully understood and supported and that its programs contribute as much as possible to host country goals. It forges partnerships with businesses, private voluntary organizations, nongovernmental organizations, and educational institutions to ensure a commitment to common strategies and tactics. Effective partnerships not only ensure greater consistency of purpose and action but multiply the Agency's own capabilities and resources.

The Agency identified three partner-centered objectives in its FY99 performance plan: 1) developing the Organization for Economic Development and Cooperation Development Assistance Committee's 21st Century Strategy, which provides a common framework among donor agencies for structuring assistance; 2) developing mechanisms to advance public-private partnerships within the U.S.-Japan Common Agenda, the U.S.-European Union New Transatlantic Agenda, and similar World Bank initiatives; and 3) mobilizing increased donor financing and greater policy coherence in postconflict responses, negotiating a donor statement of principles for postconflict rehabilitation, and establishing a donor network focused on peace-building and postconflict responses. In support of these objectives, the Agency

- Managed the U.S. government dialog for the triennial Development Assistance Committee's (DAC) review of U.S. development assistance programs, which was highly favorable. The DAC is a coordinating committee of the Organization for Economic Development and Cooperation (OECD), which helps coordinate many bilateral donor efforts.
- Expanded cooperation with the European Commission under the umbrella of the New Transatlantic Agenda. The Agency especially fostered cooperation in activities associated with El Niño, democracy and civil society, and the development aspects of global climate change.
- Worked with other donors, especially the Inter-American Development Bank, in responding to critical development issues identified at the Summit of the Americas. Responses included the

Presidential Initiative on Food Safety as well as initiatives affecting education, microenterprises, and core labor standards to protect workers' rights and improve labor-management relations.

- Supported the Sahel Regional Program and the Permanent Interstate Committee for Drought Control in the Sahel and the Club du Sahel system, one of the most successful host country-donor collaborations in Africa. Created to coordinate food aid and other emergency resources in the Sahel, this committee now supports an environmental monitoring and early warning system. It also conducts research, does policy analysis and planning, and develops policy and strategy.

Assistance Channeled Through NGOs

The most effective way to implement development assistance is often through private voluntary organizations (PVOs) and nongovernmental organizations (NGOs), especially at the grass-roots level. In FY97, the Agency obligated 34 percent of its development assistance through PVOs and NGOs, up from 31 percent in FY95.

USAID has helped PVOs become more effective by revising the Agency's competitive grant programs. Agency grant programs now place emphasis on improving PVOs' management and technical capacity and upgrading their monitoring and management systems. The criteria also encourage more partnerships with local NGOs, local governments, USAID Missions, and other PVOs. Finally, they enhance sustainability by diversifying PVO funding and resource bases. This emphasis on partnerships and results is paying off.

- By FY97 about half the Agency-supported PVO programs had community financing or cost recovery mechanisms so they could continue delivering services when USAID funding ended.
- In 1996 only about half of Agency-funded PVO agreements included a local partner; by 1998, 75 percent had them. In 1996 only 55 percent of PVO agreements transferred funds to local organizations; in 1998 64 percent included such transfers.

One of the Agency's more innovative approaches to partnership, Lessons Without Borders, began in 1994. Under this program, USAID and American local, state, and private organizations team up to apply what the Agency has learned about development to solving U.S. problems. The program hosted two conferences during 1997-98, one in Knoxville, Tennessee on rural enterprise, and one in Chicago on international women's business.

Coordination Among U.S. Agencies

The Agency's strategic plan clearly supports the U.S. Government's Strategic Plan for International Affairs. The Agency coordinates its policies, plans, and initiatives with many federal agencies.

For example, USAID drafted its higher education policy and action plan in close consultation with partners in higher education and in extensive collaboration with the Departments of Agriculture, Commerce, Education, and Labor; the U.S. Information Agency; the National Institutes of Health; the Smithsonian; and others. The Agency shaped its initiative to combat infectious diseases in consultation with the Centers for Disease Control, the Departments of State and Defense, the

National Oceanic and Atmospheric Administration, the NIH, the White House, and other agencies. USAID also provides leadership for President Clinton's interagency Initiative on the Greater Horn of Africa, a partnership among the Horn's 10 member states and principal donors to improve food security and collaborate in efforts to prevent, mitigate, and resolve conflict.

Policy Development

USAID's strategic plan and annual performance plan are the framework for reviewing strategies and developing policies to achieve the Agency's performance goals. In FY98, policy analysis culminated in a formal review of policies and strategies for each of the Agency's seven goal areas as well as issues that cut across goal areas.

In FY97 and FY98 the Agency developed policies for community partnerships on disability, basic education, and higher education. It also refined policy guidance on endowments, microenterprise assistance, nonproject assistance policy, and on capital lending, among other things. The Agency also provided guidance for new efforts, such as the infectious disease strategy and the action plan for global climate change. Such policy guidance facilitates innovative programming, especially in areas that cut across more than one USAID goal. The Greater Horn of Africa Initiative action plan, for example, provides the framework for integrated strategic planning for crisis prevention and food security.

Policy Coordination

Coordination of strategic planning and policy development outside the Agency is critical if USAID is to remain a premier development agency. To ensure that the Agency's development perspective is considered, USAID participates

in such interagency policy groups as the National Science and Technology Council committees. On issues such as crisis prevention it coordinates efforts with the European Union and other donors. It collaborates with the U.S. Department of Agriculture and other donors on food security and implementation of the World Food Summit action plan. It participates in the U.S.–European Union Task Force on Emerging and Reemerging Infectious Diseases. It provides leadership for the Development Assistance Committee working groups on trade and on global climate change.

In regular reviews of its goal areas and development agenda, the Agency identified several issues that need to be addressed across goal areas. Some will require new strategies that integrate them into Agency programs; others may need to be incorporated in future strategic plans. These issues include the following:

- **Food Security—Millennium Initiative.** Food security is central to USAID's integrated, sus-

tainable development program, and agricultural research is one of its most effective and sustainable investments. The Agency intends to continue supporting food security and to expand agricultural research partnerships and technology transfers.

- **Gender.** During FY97–98 the Agency implemented important measures from its gender plan of action. Among other things, it issued guidance on gender requirements in awarding contracts, grants, and cooperative agreements and on requirements for collecting, analyzing, and reporting on gender-disaggregated data.

Performance Measurement And Evaluation

Since 1995, USAID has implemented profound management changes to improve the Agency's ability to create a

learning culture and achieve results. Like other U.S. government agencies, USAID has struggled to develop useful and meaningful performance goals and indicators, consistent with the Government Performance and Results Act. It is listening, learning, changing, and making progress.

- The Agency expanded technical assistance to help operating units sharpen their strategic planning and strengthen their performance indicators.
- It completed systematic reviews of operating unit strategies and R4s (annual Reports on Results and Requests for Resources), assessing performance for every strategic objective in every operating unit. It identified appropriate remedial actions where programs were failing to achieve expected results and applied this performance information in program and budget decisions.
- It developed formal Performance Monitoring and Evaluation

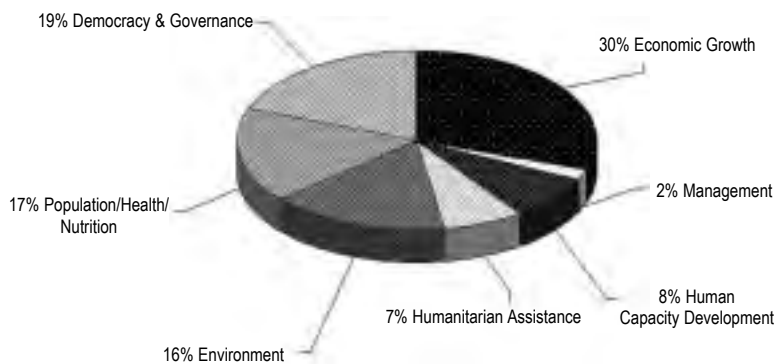
USAID's Progress in Managing for Results

USAID has long been committed to managing for results. Beginning with the Agency's bottom-up strategic planning and performance monitoring efforts in the early 1990s, the Agency has worked energetically and effectively to infuse a results orientation into program and budget decision-making. This orientation can be seen in the Agency's strategies for sustainable development (1993); strategic framework (1994); reengineered operations policies and procedures (1995); Results Reports and Resource Requests, or R4s (1996); strategic plan (1997); annual performance plan (1997); and annual performance reports (since 1993). As a result of these efforts, USAID's programs are becoming more transparent, credible, and effective.

The Agency's commitment has not gone unnoticed. Results-based management is now the goal of nearly every development agency and donor. Agency staff have been asked to make presentations and to participate in workshops sponsored by the Development Assistance Committee (DAC), the U.N. Development Program, the World Bank, and others aimed at sharing approaches. The recent triennial DAC review of U.S. development assistance highlighted Agency progress and leadership in managing for results. Similar recognition has come from the Government Accounting Office, the Office of Management and Budget, (for example, in USAID's most recent budget passback), and the National Academy of Public Administration, which asked USAID to host its first interagency workshop on performance measurement in January 1999.

Figure 4.1. Distribution of USAID Strategic Objectives, 1997

n = 443



Guidance, which it published as “TIPS” aimed at strengthening operating units’ ability to monitor and evaluate performance by disseminating best practices, refining standards, and clarifying policies for the entire Agency. During FY97 and FY98, TIPS covered *Quality Standards for Performance Measurement, The Role of Evaluation in USAID, and Establishing Performance Targets*.

- The Agency disseminated performance measurement and evaluation guidance in worldwide cables, such as the Agency’s March 1998 message on common indicators.
- It improved general USAID capability in performance measurement—particularly in newer goal areas such as democracy and the environment—through working groups, workshops, and seminars on indicators.
- The Agency developed and disseminated indicators handbooks for performance in several areas: the environment, democracy and governance, and population and health.
- It also developed a formal training program, Reaching 4 Results,

which it field-tested in FY98. Worldwide implementation is scheduled for FY99.

Largely because of these efforts, the coverage and quality of USAID’s performance monitoring improved in FY97. Relatively complete performance information (indicators, baseline, and actuals) was available for only 39 percent of USAID’s operational-level strategic objectives in FY97. By FY98, such data were available for 64 percent of those objectives. Since new programs cannot usually expect results data for the first two years, USAID’s target is to have data for 80 percent of strategic objectives.

Analysis of Performance Data

The Agency is analyzing country strategic objective indicator data in a variety of ways. Such data, although dry, do give another picture of how the Agency is performing.

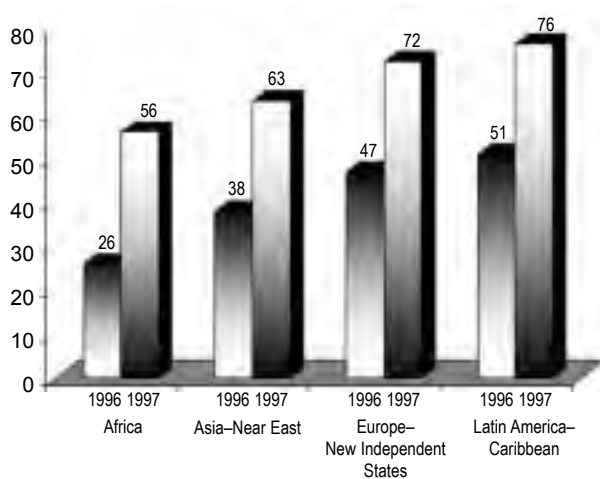
Performance is measured against strategic objectives. At USAID the greatest number of strategic objectives have to do with economic growth and with democracy and governance, as figure 4.1 shows. (Note that this figure quantifies strategic objectives, not the amount of money obligated for each goal area.)

USAID bureaus vary in how well they report performance data. The four regional bureaus are clustered around a mean of 64 percent, as figure 4.2 shows. The Latin America and Caribbean Bureau has a more mature program, which is reflected in the higher number of programs for which data are reported for that bureau. The Africa region, by contrast, being in a much earlier stage of development, has many more challenges to face, which makes target setting more difficult. The Bureau for Humanitarian Response and the Global Bureau are reporting data for the first time this year, so expectations about their reporting are lower than for the rest of the Agency. Moreover, because there are activities in many countries for each strategic objective in the Global Bureau, it is much more difficult to establish meaningful targets. The Agency is now revising how the Global Bureau sets targets.

With three levels of performance assessment, the Agency, in effect, gets three different views on how well operating units are meeting expectations: 1) In 1998, operating units evaluated themselves as meeting or exceeding 90 percent of their strategic objectives. Self-assessments by the operating units were slightly more optimistic than the final bureau judgments, as figure 4.3 shows. 2) On the basis of numerical indicators from the performance tables, the units met or exceeded 82 percent of strategic objectives for which annual performance targets had been established. 3) In the judgment of bureau review meetings in Washington, operating units were judged to have met or exceeded expectations on 86 percent of strategic objectives.

The Agency has made significant progress toward establishing a project monitoring system that shows whether programs are on track, and programs are by and large meeting their targets (see section on performance information databases, below). The Agency will

Figure 4.2. Proportion of Indicators Developed for Bureau Strategic Objectives
(percentage per regional bureau, 1996, 1997)



be addressing the question whether the target setting and evaluation process is a fair and accurate way to measure progress. This is part of USAID's work as it develops its performance evaluation system and the performance management culture to support it. The Agency is firmly committed to seeing this process through to the end.

AGENCY EVALUATIONS

USAID emphasizes evaluation as a basis for understanding performance monitoring data, reaching judgments about what works and what doesn't, and taking action. Evaluations underlie decision-making at both operational and Agency levels. In recent years, the number of operational-level evaluations received in Washington dropped substantially, from 489 in 1994 to 270 in 1996 and 183 in 1997. This decline was partly intentional. In the past many evaluations were conducted simply to meet bureaucratic requirements and had little impact. In developing the new system of management and reporting, the Agency encouraged Missions to institutionalize much of the analysis formerly done in evaluations. We do not yet know whether the falloff in formal evaluations has been counterbalanced by less formal analysis. An intensive

assessment of the status of operational evaluations during FY99 should provide the basis for additional policy, guidance, or training in FY2000.

Evaluations were done for FY97 and FY98 on the following:

- Democratic local governance (Bolivia, Honduras, Mali, Philippines, Ukraine)
- Food aid (Bangladesh, Ethiopia, Honduras, Indonesia, Sahel)
- Postconflict electoral assistance (Angola, Cambodia, El Salvador, Ethiopia, Mozambique, Nicaragua)
- Graduation strategies, girls' education, and taking stock on Agency reengineering (Egypt, Guatemala, Guinea, Malawi, Nepal, Pakistan)
- Capital markets (India, Kenya, Morocco, Philippines, Romania).
- Enterprise funds (a special study)

Ongoing evaluations and studies initiated in FY98 cover democracy and cross-sectoral linkages, emergency assistance,

durable partnerships, and the state of the art of Agency evaluations.

A number of these evaluations—including the assessment of girls' education, the stocktaking on reengineering, and the special study of enterprise funds—have already changed Agency policy and practice.

NEW PERFORMANCE INFORMATION DATABASES

In FY97 and FY98, USAID assembled a new Performance Monitoring and Analysis database that draws on operational-level results from R4s to support analysis for the Agency's annual performance report. Increasingly, USAID uses this database for supplementary analyses that inform program and budget decision-making. The Agency used the database for the following tasks in FY98:

- To analyze the distribution of operational-level results in relation to the goals and objectives outlined in the Agency strategic plan
- To measure operating units' capacity to report on performance
- To identify those units, geographical regions, goal areas, and Agency objectives for which the Agency was still having trouble putting performance monitoring plans in place
- To compare results from different processes for assessing performance (to make the annual review process more efficient)
- To help operating units prepare strategic plans and frameworks for reporting results, by providing data on existing indicators.

- To investigate how development tools such as information and communication technology, which cut across goal areas, will help the Agency fulfill its strategic plan
- To begin tracking quality-of-performance measurement data, sources of indicator data, and the time period of data—all of which are issues that of concern to the inspector general

In FY98, USAID also created a database of country development trends to analyze its progress toward Agency goals and to provide a framework for assessing development needs and potential. This section of the report drew on information in that database.

Managing For Results

USAID cannot remain a premier development agency unless it excels in delivering development assistance. To achieve the best possible development results, the Agency must manage program operations, workforce, financial resources, information resources, and grant and contract services as efficiently and effectively as possible.

Program Operations

In late 1993, USAID began to “reengineer” its program operations system—the processes involved in planning, approving, and implementing programs; monitoring and evaluating the results; and supporting management and information systems. In formulating new processes for doing business, the Agency was guided by five core values: results orientation, customer focus, empowerment/accountability, teamwork, and diversity.

In early 1998, USAID took stock of staff and partner perceptions about how well the Agency has reoriented its operations toward these values and how the reforms have affected program operations. Participants reported that performance information and the perspectives of customers and partners were regularly incorporated into Agency decision-making. Although most participants largely felt that the increased emphasis on results had positively influenced Agency work, most also identified serious unintended consequences. These included excessive time burdens on staff and partners and overly quantitative and short-term indicators that did not fully capture significant development results, such as increased institutional capacity. As a result, the Agency adopted measures to streamline performance reporting in late 1998.

The stocktaking also revealed a need for more visible leadership of the reform process, greater clarity about new procedures, and better Agency monitoring. As a result, the Bureau for Management and for Policy and Program Coordination began working together in April 1998 through a joint operations governance team to resolve

uncertainties in the interpretation of operational policies and procedures. By mid-1998 this team had made the Agency’s directive system more accessible to staff and partners; had ensured that various related problems in the performance management system were being addressed; and had assembled teams to prepare any guidance needed on issues ranging from how to engage partner participation to establishing minimum requirements for obligating funds.

Human Resources Management

To manage its programs for results, USAID must have the right people—with the right training and skills—in the right places at the right time. Over the past nine years, the Agency has been severely constrained by declines in personnel and operating budget levels. Figure 4.4 illustrates declines in civil service and foreign service levels from fiscal year 1990 through 1998. A major concern is the steady decline in the number of seasoned foreign service officers. The level of foreign service staffing declined 4.5 percent during FY97 and FY98. The U.S. direct hire

Figure 4.3. Three Views on Whether Operating Units Met Or Exceeded Expectations in 1997
(self, indicator, and bureau assessment, as %)

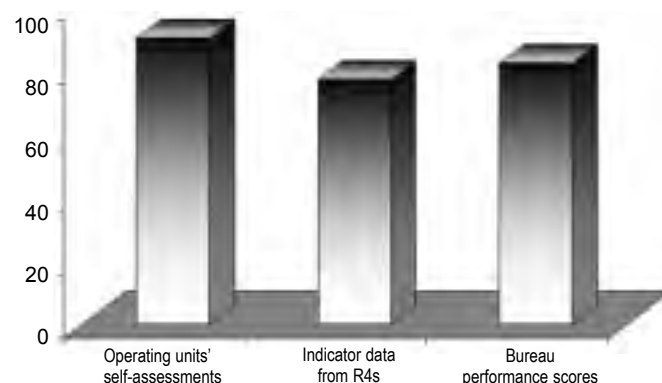
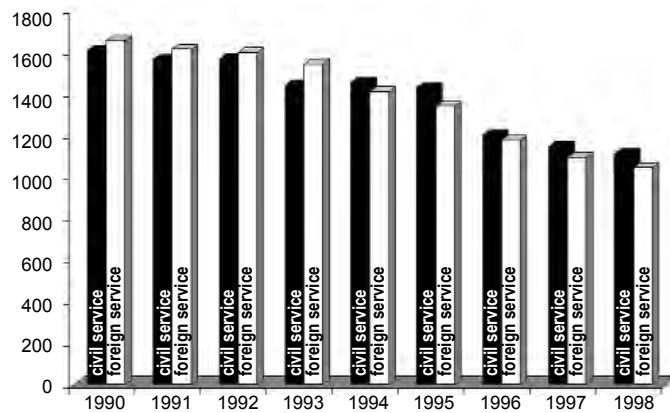


Figure 4.4. Total USAID U.S. Direct Hire Staff, 1990–98 (Excludes OIG)

staff and total Agency employment both declined 3 percent. Continued staff reductions, coupled with limited hiring, are eroding the Agency's capacity to operate effectively.

To address staffing concerns, the Administrator convened a task force to recommend a process for work-force planning, decision-making, and management. As a result of task-force recommendations, the Agency established a management council of senior executives charged with making corporate decisions about Agency work-force requirements. Among other things, the management council commissioned internal studies to determine the appropriate size of Washington headquarters staff, the Agency's technical staff requirements, and the deployment of staff overseas.

The Agency developed new and innovative training courses (stressing management, procurement, operations, and technical skills) and trained 4,833 people worldwide. In addition, it developed the framework for a new leadership and program operations course.

The Agency conducted workshops in FY98 to train staff in strategic planning, activity implementation, performance monitoring and evaluation, and acquisi-

tions and assistance planning and administration.

The Agency held several seminars on contract and grants management for both contracting and program staff. A desktop guide for nonprocurement personnel was issued to supplement seminars and formal courses. During the fiscal year USAID also awarded contracts for training technical personnel who serve as technical officers for acquisition and assistance instruments.

Acquisition And Assistance

With efficient and effective acquisition and assistance processes, USAID can work with the best contractors and grantees at the lowest cost. For the past several years, USAID has concentrated on improving acquisition and assistance by improving communications with employees and partners and by testing innovative contracting techniques. The Agency's website expanded in 1998 to provide more procurement-related information, both internally and externally. The Agency created a website on results-oriented assistance instruments, welcoming online contributions from the recipient community and Agency contracting and technical personnel.

The Agency also held regular meetings and training sessions with organizations

of contractors and recipients to exchange information and address issues of concern.

According to feedback during the recent stocktaking, both USAID staff and partners still view acquisition and assistance as time consuming and overly bureaucratic. As a result, in FY98 an Agency task force recommended expanding technical training and streamlining acquisition and assistance processes to make them easily understandable and consistently applied. Task-force recommendations led to the creation of an acquisition and assistance advisory panel to establish a process for Agencywide participation in procurement policymaking.

The Agency also tested several new initiatives to expedite acquisitions and assistance during FY98. For example, it tested "fast track" competitive procedures for certain indefinite-quantity contracts for which selection of the contractor is based mainly on past performance and price, so a full-blown technical proposal is not needed. The Agency is also trying a leader-associate grant arrangement, whereby USAID/Washington and field Missions will award a series of contracts from one competition.

Information Resources Management

USAID's results orientation and commitment to results, teamwork, and partnerships make it crucial that information be available to staff and partners when it is needed. To meet that need, in the mid-1990s the Agency began developing an ambitious corporate information system, called the New Management System. By FY97 it had become clear that the system, as initially designed, would not perform as planned. In FY97 and FY98 the Agency implemented improvements to get the Agency's information systems back on track.

CAPITAL PLANNING, IMPLEMENTATION, AND MONITORING

During FY98, the Agency began implementation of a new information technology management strategy to improve compliance with the Clinger-Cohen Act, the Government Performance and Results Act, and Raines's Rules. The new approach identifies and incorporates best practices and lessons learned industrywide to improve management discipline and program performance.

The Agency created a capital investment review board, chaired by the chief information officer, to manage its portfolio of information technology. That board implemented a process for selecting technology and is developing monitoring and evaluation processes and policies. It reviewed and approved selection of Year 2000 (Y2K)-compliant office suite software and personal computers for use Agencywide.

In May 1998, the General Services Administration awarded a contract to provide the Agency with access to specialized management advice, support, and expertise. Work performed under this contract will use performance-based contracting principles as much as possible.

NEW MANAGEMENT SYSTEM

The purpose of the New Management System (NMS) is to integrate the Agency's business operations and improve its ability to capture, manage, and report on strategic goals and objectives. In FY98, a newly appointed management team began to use emerging technology and to assign priorities to Agency requirements. The team changed the Agency's approach from directly managing software development to managing software acquisition. The team took many steps to instill dis-

cipline in the management of information technology—especially the NMS.

An independent review of the NMS was conducted under the oversight of the General Services Administration. The GSA recommended ways to repair and replace NMS modules that were not functioning as well as planned. The review prompted a change from a fully tailored management information system to consideration of options now available as commercial off-the-shelf packages.

The Agency also established an NMS executive team to develop performance measures and to monitor performance against schedule and cost objectives, program and functional requirements, and time and quality goals. The team developed a corporate approach to ranking requirements—ranking them within the confines of time, budget, and human resources, judging risks from an Agencywide perspective.

The new contract for information technology support and expertise consolidates technical management of the NMS and other information technology programs. The contractor introduced a disciplined and comprehensive approach to the acquisition, integration, life-cycle management, and operation of USAID's information technology resources. This management approach provides accurate information on progress in maintaining and improving the NMS.

YEAR 2000 CONVERSION

Until FY97, USAID expected that the NMS would address many of the Agency's Y2K requirements. When the NMS failed to perform as planned, the Agency had to address a wider range of Y2K issues. During FY98 the Agency placed a high priority on preparing for Y2K. It consolidated Y2K program management under the new informa-

tion technology administration contract and is receiving a full range of Y2K services. The Agency moved responsibility for Y2K program management into a line position, reporting directly to the chief information officer. The Y2K conversion is multifaceted and affects administrative and program operations, in USAID/Washington and in overseas Missions, with customers, partners, and stakeholders. Highlights of 1998:

- USAID completed a cost-benefit analysis of proposals for making desktop computer resources Y2K-compliant. The capital investment review board determined which options were most cost-effective and the best value. The Agency completed blanket purchase agreements to facilitate the worldwide acquisition of Y2K-compliant personal computers and desktop software. It is now ready to implement those agreements in offices worldwide.
- The Agency completed a worldwide survey of computerized assets, such as elevators and heating and air-conditioning systems, outside the information system. Agency facilities contain relatively few devices vulnerable to Y2K problems. Where there are potential problems, the Agency is addressing available options directly with the supplier of the device.
- USAID Missions completed more than 80 percent of upgrades needed on telecommunications routing equipment and USAID/Washington has completed more than 90 percent of such upgrades. The Agency's Y2K program coordinators worldwide are developing contingency plans for communications and operations

in the event of local power failure.

- The Agency completed two of the four steps needed to assess Y2K technology problems, and inventory modification needs, and assign priorities on critical systems. Modifications are in progress and testing is planned once the updates are completed.

Financial Management

Strong financial management is essential for linking resources to results. During FY98, USAID continued to address deficiencies in its financial management operations and systems. The Agency's financial accounting system, the Worldwide Accounting and Control System, was evaluated as part of the independent review of NMS. The review confirmed the need for significant improvements and recommended options for meeting financial management needs.

The Agency chose a three-pronged strategy to make financial accountability and reporting more efficient and effective: 1) it is purchasing an off-the-shelf core accounting system, 2) using services from other government agencies,

and 3) contracting some functions out to the private sector. In FY98 the Agency completed a business process improvement analysis, which will help the Agency define functional requirements for the accounting system. The Agency expects to acquire the new system in fiscal year 1999. It will be implemented in Washington and the missions during fiscal years 2000 through 2002. Meanwhile, the Agency is working closely with the Office of the Inspector General to improve the environment for financial management and to produce better financial statements.

In FY98, the Agency signed an agreement with Riggs National Bank to service loans and formally agreed to a cross-servicing arrangement whereby the Department of Health and Human Services handles cash advance operations for certain grants. Both operations are lower in cost than in-house processing and should be fully functional within a year.

Maintaining Leadership In a Complex World

USAID is a complex organization operating in a complex and uncertain world. Throughout its existence, the

Agency has been a leader in the development community. Many of the most successful development initiatives start with USAID and spread through other donors.

USAID is more than the sum of its parts. Its Missions, central and regional bureaus, and the Global Bureau technical centers work together to produce results. The Agency collaborates successfully with other parts of the U.S. government, with other multilateral and bilateral donors, and with the U.S. private sector (be it businesses, universities, or voluntary organizations), mobilizing broad coalitions to accomplish U.S. foreign policy goals.

USAID is committed to attracting and retaining the best team to manage its diverse mission in a rapidly changing world. The Agency's people, systems, and partners demand that it continue to refresh and invest in a diverse and well-managed work force.

Chief Financial Officer's Message

This USAID Accountability Report provides useful information to those who are interested in the Agency's mission and the manner in which it is implementing its goals and objectives on a worldwide basis.

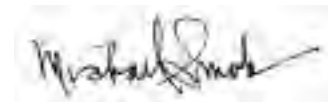
USAID managers, employees, and partners affect the lives and the opportunities of people in many countries around the world through the delivery of foreign economic and humanitarian assistance. The financial resources that USAID is able to bring to bear to provide this assistance are reflected in the financial statements included in this report to our stakeholders. Owing to the nature of its programs, the expertise and resources that USAID delivers to its recipients are difficult to measure. The Agency's success is due to its effectiveness in marshaling its resources and those of donors to address significant development issues worldwide.

The USAID Inspector General's Office was not able to express an opinion on the financial statements because its audit scope was impaired. This impairment resulted from poorly functioning accounting and financial management systems from which the Agency was unable to produce complete, reliable, timely, and consistent financial statements. The Agency has embarked on a program to replace the accounting systems and the suite of financial management systems that support the internal management functions of the organization using private sector technologies

and the services of other government agencies. It is essential that the Agency ensure strong accountability for the resources provided to us. We are committed to working in an open and constructive manner to make USAID synonymous with sound financial management.

During the fiscal year we implemented a number of operational improvements in accounting and reporting processes. We improved the servicing of our loan portfolio through the use of a private sector financial institution, and we improved the letter-of-credit process used to fund grantees by employing the services of another government agency. We were also able to implement new reporting and disclosure requirements in accordance with the Statement of Federal Financial Accounting Standards Number 2, *Entity and Display*.

Looking to next year, working closely with the chief information officer, the inspector general and USAID managers, we plan to report on marked improvements in our accounting systems, financial operations, the CFO organization, and the CFO functions carried out in Washington and at our overseas missions.



—MICHAEL SMOKOVICH
Chief Financial Officer
U.S. Agency for International Development

Analysis of Financial Statements

Fiscal year 1998 marks the first year that agencies are required to produce financial statements in accordance with the Statement of Federal Financial Accounting Standards Number 2, *Entity and Display*. Because of the significant differences in reporting requirements between fiscal years 1997 and 1998, USAID has decided not to present comparative statements. Comparative statements are not required by the Office of Management and Budget (OMB) until reporting periods beginning after 30 September 1999.

During fiscal year 1998, net position decreased by \$7.413 million. This decrease is primarily due to a change in the presentation of Resources Payable to Treasury for Credit Loan Programs. \$6.212 million in Resources Payable to Treasury was reclassified from net position to other intragovernmental liabilities.

In fiscal year 1997, in consultation with OMB, these amounts were classified as invested capital (a component of net position) for financial statement reporting purposes. This decision was based on OMB Circular 94-01, which included pre-credit reform loans financed by appropriations in its definition of invested capital. In addition, the reclassification of Resources Payable to Treasury as an equity account eliminated a discrepancy between the Statement of Operations and the Statement of Changes in Net Position.

During FY 1998, invested capital was removed from the U.S. Standard General Ledger. Additionally, in the new Entity and Display statements, the closing of income and expenses to Resources Payable to Treasury is recognized as a decrease in Unexpended

Appropriations on the Statement of Changes in Net Position, thereby eliminating any discrepancies between the statements. By reclassifying Resources Payable to Treasury as a liability rather than as a component of net position, consistency between the financial statements is maintained and the payable is properly reflected as a liability.

Commercial Payment Activities

The Prompt Payment Act and its implementing regulations seek to ensure timely and accurate payment of vendor invoices by federal agencies. The act requires payment within 30 days of receipt of a proper invoice for goods and services. If payment is late, an interest penalty must be paid.

During fiscal year 1998, USAID reduced the *volume* of interest penalties by 65 percent and the dollar value by 66 percent from fiscal year 1997. These reductions were realized through normalization of operations in fiscal year 1998, in the aftermath of the major payment delays that resulted during implementation of the New Management System in 1997.

The Debt Collection Improvement Act of 1996 mandated electronic funds transfers for federal payments to new recipients beginning 26 July 1996. It also mandated electronic funds transfers for all federal payments after 1 January 1999. As a result of this legislation, USAID successfully converted numerous vendors from check payments to electronic funds transfers. As a result, more than 95 percent of USAID's Washington payments are now made electronically. At the mission level, significant progress has been made in using Treasury infrastructure to make payments electronically. However, significant obstacles continue to hinder

the electronic payment of foreign currencies within developing countries.

During fiscal year 1998, USAID began to cross-service the management of advance funding to nonprofit organizations, via letter of credit, through the Department of Health and Human Services (DHHS). DHHS will provide the software and professional support necessary to disburse more than \$1.7 billion to USAID's nonprofit partners. This conversion will be completed in fiscal year 1999 and will provide USAID with improved letter-of-credit processing capabilities at an efficient cost. In addition, it will comply with recommendations by the Grants Management Committee of the Chief Financial Officer's Council to implement the program by 1 October 2000.

Debt Management

USAID is continuing its efforts to expand and enhance its debt management capabilities. These efforts ensure the Agency's consistent compliance with legal policy as well as accurate disclosure of dollars spent and program objectives achieved.

Credit Reform Programs

USAID has continued to improve the management of its credit portfolio as part of its mission to establish and maintain sound financial management practices in order to advance the Agency's mission, goals, and objectives. To further its mission as a value-added provider of financial information and services, USAID has established a credit review board. It meets on a regular basis to oversee general credit portfolio management.

Improvement of credit management policies and procedures continued during fiscal year 1998 with the develop-

ment of an enhanced procedures manual for the Urban and Environment Credit Program. Development of similar manuals for the remaining credit programs will continue in fiscal year 1999.

USAID has also begun the outsourcing of its loan-servicing function in an effort to improve and streamline that aspect of portfolio management. Completion of this project is scheduled for early 1999. The aging portfolio systems currently in use are to be replaced with a state-of-the-art credit portfolio system housed off-site. This will allow the Agency to improve the quality of credit portfolio information it provides to agency management as well as its customers, partners, and other stakeholders. Agency credit asset management was also improved during fiscal year 1998 through implementation of the Credit Management Improvement Action Plan. This plan established credit managers in the Agency's program offices, allowing financial management

staff and program managers to work closely together to improve financial systems and procedures for managing the Agency's credit portfolio.

Debt Collection Performance

USAID has been working with the Treasury Department to implement the requirements of the Debt Collection Improvement Act of 1996 and to take advantage of the expanded debt collection authority under the law. Through the end of fiscal year 1998, USAID referred approximately \$80,000 to Treasury's offset program, up from approximately \$20,000 in the prior year. There are substantially more delinquent debts in the Agency. However, many are debts due from foreign vendors. Treasury does not have the capability to seek collection from these vendors.

Civil Monetary Penalties

Civil monetary penalties are non-criminal damages imposed for violations of federal law, for which a given dollar amount or maximum amount is specified by federal law. This amount is assessed or enforced by an agency as a result of an administrative proceeding or civil action in the federal courts. The Federal Civil Penalties Inflation Adjustment Act of 1990, PL 101-410, provides for regular reporting of penalties assessed and collected by federal agencies to ensure that such penalties continue to maintain their deterrent value and that penalty amounts due the federal government are properly accounted for and collected. No penalties were assessed under this statute by USAID in fiscal year 1998.



Management Accountability And Control

USAID has undertaken comprehensive management reforms to improve accountability and make the Agency more efficient and results oriented. Although the reform process continues, the way USAID does business and the approaches to the delivery of foreign assistance have changed dramatically.

USAID's management controls (organizations, systems, policies, and procedures) have been reengineered over the past few years to support the reforms and improve the integrity of its operations. Among other things, the Agency was reorganized to reduce overlap and layering and to facilitate empowerment of Agency staff. New program operations procedures were adopted to achieve better results, improve delivery of assistance, and provide better service to customers. An automated directives system provides USAID staff access to policies, procedures, and supplemental information needed to effectively implement the programs and manage the administrative operations of the Agency.

In fiscal year 1997, USAID deployed a new management information system

ANNUAL ASSURANCE STATEMENT

As of September 30, 1998, the management accountability and control systems of the Agency for International Development provided reasonable assurance that the objectives of the Federal Managers Financial Integrity Act were achieved, with the exception of the material weaknesses noted. This statement is based on the results of an Agencywide management control assessment, Inspector General audits, and input from senior program and administrative officials.

—J. BRIAN ATWOOD
Administrator

worldwide to improve accountability and provide more timely information for decision-making. The New Management System (NMS) encompasses all the core business systems—accounting, procurement, budget, and program operations. After a series of technical difficulties, selected modules of NMS were suspended in field missions, while operations continued in Washington. USAID changed its approach to the development of NMS to correct the technical difficulties and management control deficiencies identified by Agency staff and the Office of the Inspector General.

An independent review of NMS recommended ways to repair and replace NMS modules that were not functioning as planned.

Material Weaknesses: An Overview

In the fiscal year 1997 Federal Managers Financial Integrity Act report, USAID identified seven material problems in control systems and procedures. These included problems in financial management systems and procedures, security and reporting capabilities of the NMS, information resources management processes, and the computer security program. Although progress has been made, the weaknesses were not fully corrected during fiscal year 1998.

Two additional weaknesses were identified in fiscal year 1998 related to the year 2000 computer problem and USAID's program performance reporting.

USAID's primary accounting system was identified as a material weakness in fiscal year 1988. Several efforts have been made to resolve the deficiency, including development of the Agencywide Accounting and Control System, a component of NMS. The system did not meet expectations. It does not comply with some important financial management system requirements, and internal control deficiencies exist.

The direct loan program was also identified as a material weakness in fiscal year 1994. Additional controls and an integrated general ledger system are needed to effectively manage the program.

A three-pronged strategy is being implemented to correct the Agency's financial management deficiencies. The strategy combines the acquisition

of a commercial off-the-shelf core accounting system, cross-servicing with another government agency, and outsourcing to private industry.

A business process improvement analysis was completed during fiscal year 1998. It helped define functional requirements for the accounting system. USAID plans to acquire the new accounting system in fiscal year 1999. Phased implementation will occur in Washington and in field missions during fiscal years 2000 through 2002.

A Credit Review Board has been established to direct the policy, planning, and implementation of the Agency's portfolio of loans and loan guarantees. USAID signed a contract with Riggs National Bank in July 1998 for the servicing of loan accounts. The outsourcing will reduce vulnerability in the management of the program to the extent that it will no longer be a material weakness. The credit program general ledger will be incorporated into the new accounting system in fiscal year 2001.

USAID's financial management policies and procedures have not been fully updated and incorporated into the automated directives system. Therefore, policy guidance and regulations are not readily available to USAID staff from a complete and easily accessible source. The Agency expects to significantly reduce this material weakness during fiscal year 1999.

USAID identified the security and access controls in NMS as a material weakness in fiscal year 1997. NMS was developed within time constraints that did not permit a comprehensive and integrated computer security and access control plan. The material weakness resulted from the level at which controls are implemented in the system, the design of access control roles, audit trails of system activity,

user identification and password administration, and access to sensitive Privacy Act information.

In February 1998 a contract was awarded through the General Services Administration to identify means to improve NMS security, test security enhancements, recommend utilities and tools to improve security, and prepare a structured knowledge base of NMS risks, deficiencies, security practices, and system capabilities. This work is ongoing.

GSA also awarded a performance-based task order to a firm to serve as the Agency's prime contractor on NMS for the next five years. The contractor will implement and maintain an NMS security plan. USAID expects to fully correct this weakness by fiscal year 2001.

NMS reporting and resource management capabilities are also identified as a material weakness. The system does not yet generate reports that are timely, accurate, and sufficiently useful to manage the Agency's resources. A number of steps have been taken to address this weakness. In September 1998, a total of 158 reports and queries were available to USAID staff.

The longer term strategy to improve NMS reporting requirements will be addressed by implementation of the new accounting system with interfaces to other NMS modules. The weakness is scheduled for correction in fiscal year 2001.

Another material weakness is found in the Agency's information resources management processes, in which there are organizational and management deficiencies. During fiscal year 1998, USAID began implementing a new information technology management strategy that will improve compliance with the Clinger-Cohen Act. The new approach identifies and incorporates

industrywide best-practices and lessons learned to improve management discipline.

Among other things, the Agency established a Capital Investment Review Board for information technology to provide broad management oversight for investments. An interagency agreement was signed in fiscal year 1998 to have the Software Engineering Institute provide USAID with technical support to implement disciplined software engineering methods in both acquisition and development activities. In addition, a contractor is providing the Agency with specialized management advice, support, and expertise. USAID expects this material weakness to be corrected in fiscal year 2000.

USAID's information system security program does not meet the requirements of the Computer Security Act and Office of Management and Budget guidance. Accordingly, it is deemed a material weakness.

In January 1998, USAID hired a senior information professional to serve as the Agency's information system security officer. In consultation with the Office of the Inspector General, an information security program plan has been developed and is being implemented. The Agency has procured a risk-analysis software tool and secured the internal networks from hackers. USAID is now taking steps to incorporate security requirements into every major system and information technology initiative.

USAID expects to complete the objectives of the information system security plan by fiscal year 2003.

The Year 2000 (Y2K) computer problem was identified as a material weakness in USAID's fiscal year 1998 management control review. The Y2K conversion is multifaceted and complex. In addition to its internal operating

systems, USAID is affected by the systems and equipment in some 80 countries overseas and the information technology applications that are part of the assistance provided to countries and institutions. There are varying risks to USAID in ensuring Y2K readiness in all three areas. The Agency is unable to control some factors that contribute to readiness and can only reduce their impact through contingency planning.

USAID has devoted substantial resources to assessing, repairing, testing, and implementing systems and applications that may be affected by the Y2K problem. An assessment of mission-critical systems and a renovation plan were completed in July 1998. All mission-critical systems will be Y2K compliant by July 1999. The conversion of NMS modules may impact Agency operations by creating higher risks to the normal automated support of business and accounting operations.

Compliance activities for some non-mission-critical headquarters systems have been deferred until the mission-critical systems are repaired. In addition, assessments have not been completed of the Y2K implications for

unique systems used in overseas missions or systems provided as part of program delivery activities. Missions will perform the assessments and assistance will be provided from headquarters as needed.

USAID has initiated contingency planning to cover its most critical operational systems, concentrating initially on the financial management systems. The Agency plans to clarify responsibility for contingency planning to ensure continuity of non-mission-critical systems and field operations. USAID anticipates that the material weakness will be fully corrected in FY2000.

USAID's program performance reporting is the ninth material weakness. Performance reporting does not adequately link the Agency's performance goals with its programs. In addition, improvements are needed in the timeliness of results reporting and the quality of performance indicators. These weaknesses limit the utility of the performance reporting system as a management tool.

The Agency took steps during fiscal year 1998 to improve performance

Table 6.1. Pending Material Weaknesses

Title	Fiscal Year First Reported	Targeted Fiscal Year For Correction
USAID's primary accounting system	1988	2002
Financial management procedures	1993	1999
Direct loan programs	1994	1999
USAID's NMS security and access controls	1997	2001
USAID's NMS reporting and resource management capabilities	1997	2001
Information resources management processes	1997	2000
Computer security program	1997	2003
Year 2000 compliance	1998	2000
Program performance reporting	1998	2000

reporting. Guidelines were issued to missions on performance indicators and data quality. The management control assessment included a specific tool to identify problems with performance data.

USAID expects to reassess the strategic plan; review how operating units are evaluating programs and using the information to assess and report performance; and streamline results reporting guidance. The Agency expects to correct this weakness by fiscal year 2000.

Correcting the material weaknesses identified in this report is one of the Agency's highest management priorities. Detailed corrective action plans with key milestones and target dates have been reviewed and approved by the Agency's Management Control Review Committee, chaired by the Deputy Administrator. The committee will hold periodic review meetings with the accountable officials to ensure timely completion of corrective actions.

Table 6.1 (previous page) summarizes the nine material weaknesses. Table 6.2 and figure 6.1 reflect historical

information on USAID's progress in correcting material weaknesses.

Material Nonconformance Of Financial Management System

USAID's financial management systems do not comply substantially with federal financial management system requirements, applicable federal accounting standards, and the U.S.

Government Standard General Ledger at the transaction level. Agency management and the Office of the Inspector General have identified internal control and security deficiencies and other vulnerabilities. The system also fails to meet some important financial management systems requirements, such as the capability to produce all required financial reports and other management information at an acceptable level of timeliness and accuracy.

Audit Follow-Up Program

USAID views audit follow-up as a fundamental component of its effort to implement adequate management controls and to improve the efficiency and effectiveness of its programs and operations. Agency staff work in partnership with the Office of the Inspector General (OIG) to ensure timely and appropriate actions in response to audit recommendations.

USAID is required to obtain audits of its contractors and grantees based on the Federal Acquisition Regulation, Single Audit Act, Office of Management and Budget Circulars,

Figure 6.1. Material Weaknesses

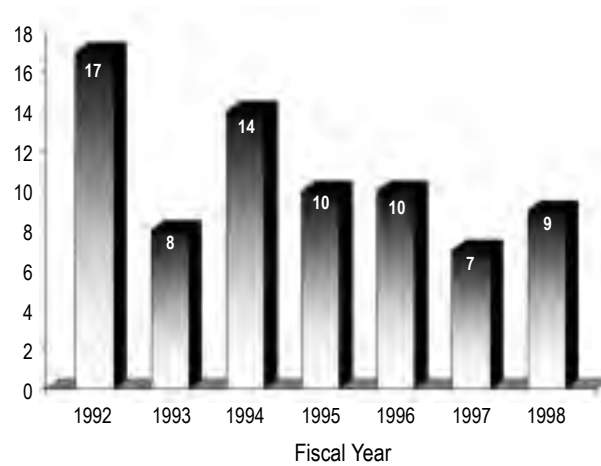


Table 6.2. Summary of Agency Performance In Correcting Weaknesses

Fiscal Year	Material Weaknesses Beginning Of Year	Material Weaknesses Added	Material Weaknesses Corrected	Pending Material Weaknesses
1992	9	10	2	17
1993	17	—	9	8
1994	8	8	2	14
1995	14	1	5	10
1996	10	—	—	10
1997	10	4	7	7
1998	7	2	—	9

Table 6.3. Management Action on Recommendations That Funds Be Put to Better Use

	Recommendations	Dollar Value (\$000)
Beginning balance 10/1/97	13	\$ 6,209
Management decisions during FY	26	\$ 17,399
Final action	29	\$ 10,117
Recommendations implemented	27	\$ 10,072
Recommendations not implemented	2	\$ 45
Ending balance 9/30/98	10	\$ 13,491

and internal policies and procedures. To fulfill this requirement, the Agency contracted with the Defense Contract Audit Agency to audit its U.S.-based contractors and relied on nonfederal auditors to audit its U.S.-based grantees. Foreign-based grantees expending a minimum threshold level of USAID funding had financial audits performed by either local auditing firms or the supreme audit institutions in host countries.

The OIG conducts audits of USAID programs and operations, including audits of the Agency's consolidated financial statements, financial-related systems and procedures, and Agency performance in implementing programs, activities, or functions.

USAID received 456 audit reports with 502 recommendations during fiscal year 1998. The reports consisted of 65 OIG audits of Agency programs and operations, 390 financial audits of contractors and grantees, and an audit of USAID's financial statement, internal controls, and compliance for fiscal years 1997 and 1996.

USAID closed 673 audit recommendations during the fiscal year, embracing 185 recommendations from audits performed by OIG and 488 recommendations from financial audits of contrac-

tors and grantees. The Agency collected \$4.5 million in disallowed costs during the period, and \$10.0 million was put to better use. Of this combined amount, \$4.9 million was recovered from contractors and grantees, \$4.2 million was deobligated, \$4.1 million was reprogrammed for other uses, and \$1.3 million was saved by implementing procedural changes. Management decisions were made to recover an additional \$3.2 million in disallowed costs and to put \$17.4 million to better use. Tables 6.3 and 6.4 provide more detailed information on the status of recommendations with disallowed costs and recommendations that funds be put to better use.

USAID had 294 open audit recommendations at the end of fiscal year 1998. Of this number, 70 recommendations have been open more than a year after a management decision was made on the appropriate course of action. Funds must be collected from contractors and grantees to complete final action on 31 of the recommendations. Collection actions are under way or USAID has determined that the funds are uncollectible and a write-off is in process. The remaining 39 recommendations require actions to improve Agency programs or operations. USAID expects to take final action on 32 of the recommendations during fiscal year 1999. Weaknesses identified in the remaining seven recommendations will be corrected when the Agency has fully implemented its computer security program and modifications to the New Management System.

Program Improvements

USAID management and the OIG have collaborated on a number of initiatives to enhance the effectiveness and quality of the audit management program:

- The Agency's audit information and tracking system was developed as a joint effort and is managed in collaboration with OIG staff. The system was

Table 6.4. Management Action on Audits With Disallowed Costs

	Recommendations	Disallowed Costs (\$000)
Beginning balance 10/1/97	130	\$ 6,627
Management decisions during FY	264	\$ 3,249
Final action	310	\$ 4,505
Collections, offset or other	297	\$ 3,189
Write-offs	13	\$ 1,316
Ending balance 9/30/98	84	\$ 5,371

enhanced during fiscal year 1998 to improve the security and overall design. A number of offices in Washington and in overseas missions now have access to the system, allowing them to track audit recommendations on a real-time basis. Plans are under way to provide access to USAID staff worldwide.

- A comprehensive audit management training program was developed and conducted in

Washington and at several overseas locations. Among other things, the course provided training on the roles and responsibilities of USAID staff from the initiation of an audit through final action on audit recommendations.

- Comprehensive policies and procedures for audit follow-up were jointly developed and issued in the Agency's automated directives system. USAID management and OIG staff

worked together during the fiscal year to improve and update the guidance.

- A more proactive approach to audit management was instituted by intensifying management involvement from the audit notification stage through report issuance.

USAID will continue to work with OIG staff to identify additional approaches to improve the audit follow-up program.

Inspector General Audit Opinion

The Government Management and Reform Act of 1994 requires U.S. Agency for International Development (USAID) to prepare consolidated financial statements and have them audited for inclusion in the government-wide financial statements. This law and applicable auditing standards require the Office of Inspector General to:

- 1) express an opinion on the financial statements including performance overview information,
- 2) report related internal control weaknesses, and
- 3) report noncompliance with applicable laws and regulations.

Auditor's Opinion on USAID's Fiscal Year 1998 Financial Statements

We could not express an opinion on the consolidated financial statements for the fiscal year ending September 30, 1998, because our audit scope was impaired. This impairment resulted from poorly functioning accounting and financial management systems from which USAID was unable to produce complete, reliable, timely, and consistent financial statements. The amount of substantive testing that would have been required to express an opinion on the presentation of USAID's financial statements would have been prohibitive and unattainable by March 1, 1999—the statutory deadline for submitting the audited financial statements to the Office of Management and Budget (OMB). The deficiencies in USAID's systems create a consequential risk that the financial statements, including the performance overview information, could contain material misstatements. Accordingly, we have not made an opinion on the fairness of the financial statements.

Report on Internal Control Weaknesses

USAID's poorly functioning accounting and financial management systems prevented USAID from generating complete, reliable, timely, and consistent financial and performance information. Because the statements lack such information, policy makers, oversight officials, managers, and other statement users should exercise caution when reading the statements. They should exercise similar caution when relying on financial and performance information derived from USAID's systems because the information may not be reliable. Further, because USAID managers receive less than reliable financial and performance information, there are increased risks that program managers and others cannot measure program performance or the costs for programs, resources might not be adequately safeguarded, reliable financial data might not be reported, and activities might not comply with laws and regulations. We have provided more information regarding these system deficiencies below. Detailed information concerning reportable conditions with the financial statements and other issues developed during this audit can be found in a report¹ to USAID managers on internal controls. The report details the issues mentioned in this report.

Poorly Functioning Systems Cause Unreliable Information

USAID's core financial system, performance measurement system, managerial cost accounting system, and budget system have widespread deficiencies. These systems do not meet federal standards that establish minimum requirements needed to perform effectively. These system deficiencies required USAID to process massive data changes outside normal processes and controls. Further, pervasive computer security deficiencies significantly increase risks that data and assets might not be protected from theft, misuse, alteration, or destruction. USAID disclosed many of the systems' deficiencies as material internal control weaknesses in its fiscal year 1998 report to the President under the Federal Managers' Financial Integrity Act (FMFIA). USAID also

¹Audit Report to USAID Managers on Internal USAID Controls for Fiscal Year 1998 (Audit Report Number 0-000-99-002-F which is scheduled for release in March 1999).

properly reported deficiencies in these systems to the Office of Management and Budget and developed a plan to integrate its financial management systems as required by the Federal Financial Management Improvement Act (FFMIA).

As a result, USAID's systems generate unreliable information and reduce management's effectiveness. These systems' deficiencies have resulted in unreliable or incomplete reports to external parties, including OMB, Congress, and the public. To illustrate, in October 1998, USAID posted unsupported net adjustments of \$60 million (\$590 million in absolute dollar value) to its general ledger to avoid submitting materially inconsistent financial information to OMB and to the U.S. Treasury on USAID's year end expenditures. Furthermore, USAID's Overview on performance does not accurately report on the results of USAID's performance—instead, it reports on the overall accomplishments of the host country and entire donor and recipient community. In addition, USAID's Congressional Presentation, which justifies its budget request, reported incomplete and inaccurate data on host country and other donor financial support of USAID programs and activities.

Unreliable performance information also affects managers' ability to compare actual program results against anticipated results and use such information to make informed decisions, including budget-allocation decisions. For example, reported performance results are not attributed to USAID activities and are not sufficiently supported, objectively verifiable, accurate, and/or validated.

Organization Deficiencies Need Attention

USAID executives have committed to correct management deficiencies and have taken steps to do so. However, fragmented and unclear organizational responsibilities continue to hinder their efforts to correct the deficiencies. In particular, because USAID has not delegated to the Chief Financial Officer (CFO) the responsibility and authority to develop and maintain an integrated financial management system as required by the CFO Act, USAID may repeat costly mistakes by deploying a new system that does not meet federal requirements and does not operate effectively.

USAID's Computers Are Not Year 2000 Compliant

USAID is vulnerable to major disruptions to its programs and operations if it does not adequately complete modifications to its computer systems to allow them to process information in the year 2000. To the extent that developing countries receiving USAID assistance encounter disruptions, USAID's program accomplishments could be at risk. As of the end of fiscal year 1998, USAID had not fully assessed its systems or systems provided to host countries. USAID also lacked detailed schedules and resource estimates and did not expect to meet the government-wide dates for implementing compliant systems. In addition, USAID has not completed and tested contingency plans to ensure continuity of service in the event of Year 2000-caused disruptions. Due to the scope and complexity of the needed changes and the limited time remaining to correct problems, USAID faces a high risk that business operations and programs will be disrupted at the start of the new millennium.

Report on Noncompliance with Laws and Regulations

USAID did not comply with provisions of some applicable laws and regulations effecting the financial statements. Consequently, USAID has no assurance that all transactions were executed in accordance with:

- 1) laws governing the use of budget authority and other laws and regulations that could have a direct and material effect on the Principal Statements or Required Supplementary Information, and
- 2) any other laws, regulations and government-wide policies identified by OMB in Appendix C of its bulletin 98-08

Recommendation

Recommendation No. 1 Because the Chief Financial Officer lacks the authority called for in the CFO Act, we recommend that the Chief Financial Officer collaborate with the Assistant Administrator for Management, Chief Information Officer, and Bureau For Policy and Program Coordination to:

- 1.1 Determine the specific responsibility, authority, and resources needed to meet the requirements of the Chief Financial Officers Act of 1990, which assigns the Chief Financial Officer responsibility to (1) develop and maintain an integrated accounting and financial management system that meets federal financial system requirements, federal accounting standards, and the U.S. Standard General Ledger at the transaction level; (2) approve and manage financial management system design and enhancement projects; and (3) develop a financial management system that provides for systematic measurement of performance.
- 1.2 Request by June 30, 1999, that the Administrator approve specific delegations of authority and resources to the Chief Financial Officer to carry out those Chief Financial Officers Act responsibilities identified in Recommendation 1.1 above.
- 1.3 Implement policies and procedures to carry out the specific delegations assigned by the Administrator in Recommendation 1.2 above.

Detailed information concerning the financial statements and other issues developed during this audit can be found in a Report² to USAID managers.



—PAUL ARMSTRONG
Office of Inspector General
March 1, 1999

²*Management Report to the USAID's Financial Statements, Internal Controls, and Compliance for Fiscal Year 1998* (Audit Report Number 0-000-99-002-F which is scheduled for release in March 1999).

Consolidated Financial Statements And Notes

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT CONSOLIDATED BALANCE SHEET

As of 30 September 1998

(In millions)

(Unaudited)

ASSETS

Entity Assets

Intragovernmental

Fund balance with Treasury (note 2)	\$	9,735
Accounts receivable, net (note 3)		503
Advances and prepayments (note 4)		38

Governmental

Accounts receivable (note 3)		2
Advances and prepayments (note 4)		1,036
Credit program receivables (note 5)		6,581
Cash and other monetary assets (note 6)		172
Operating materials and supplies (note 7)		27
Property plant and equipment, net (note 8)		28

TOTAL ASSETS

\$ 18,122

The accompanying notes are an integral part of these financial statements.

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
CONSOLIDATED BALANCE SHEET
As of 30 September 1998
(In millions)
(Unaudited)

LIABILITIES**Liabilities Covered by Budgetary Resources**

Intragovernmental liabilities	
Accounts payable (note 9)	\$ 210
Debt (note 10)	308
Other intragovernmental liabilities (note 11)	6,222
Governmental liabilities	
Accounts payable (note 9)	1,488
Liabilities for loan guarantees (note 5)	595
Other governmental liabilities (note 11)	196
Total liabilities covered by budgetary resources	<u>9,019</u>

Liabilities Not Covered by Budgetary Resources

Governmental liabilities	
Liabilities for loan guarantees (note 5)	348
Accrued unfunded annual leave and separation pay (note 12)	27
Accrued unfunded Workers Compensation benefits (note 13)	42
Total liabilities not covered by budgetary resources	<u>417</u>

Total Liabilities \$ 9,436

NET POSITION

Unexpended Appropriations	8,723
Cumulative Results of Operations	<u>(37)</u>
Total Net Position	<u>8,686</u>

TOTAL LIABILITIES AND NET POSITION \$ 18,122

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
CONSOLIDATED STATEMENT OF NET COST
For the year ended 30 September 1998
(In millions)
(Unaudited)

COSTS:**ACHIEVING BROAD-BASED ECONOMIC GROWTH**

Intragovernmental	\$ 70
With the public	4,240
Total	<u>4,310</u>
Less earned revenues	(117)
Net program costs	<u>4,193</u>

BUILDING SUSTAINABLE DEMOCRACIES

Intragovernmental	47
With the public	325
Total	<u>372</u>
Less earned revenues	—
Net program costs	<u>372</u>

BUILDING HUMAN CAPACITY THROUGH EDUCATION AND TRAINING

Intragovernmental	6
With the public	660
Total	<u>666</u>
Less earned revenues	(1)
Net program costs	<u>665</u>

STABILIZING WORLD POPULATION AND PROTECTING HUMAN HEALTH

Intragovernmental	81
With the public	1,087
Total	<u>1,168</u>
Less earned revenues	(1)
Net program costs	<u>1,167</u>

MANAGING THE ENVIRONMENT FOR LONG-TERM SUSTAINABILITY

Intragovernmental	75
With the public	366
Total	<u>441</u>
Less earned revenues	(31)
Net program costs	<u>410</u>

SAVING LIVES, REDUCING SUFFERING, AND REINFORCING DEVELOPMENT

Intragovernmental	62
With the public	341
Total	<u>403</u>
Less earned revenues	(29)
Net program costs	<u>374</u>

LESS EARNED REVENUES NOT ATTRIBUTED TO PROGRAMS

(3)

NET COST OF OPERATIONS

\$ 7,178

The accompanying notes are an integral part of these financial statements.

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the year ended 30 September 1998
(In millions)
(Unaudited)

NET COST OF OPERATIONS	\$ (7,178)
FINANCING SOURCES (OTHER THAN EXCHANGE REVENUES)	
Appropriations used	6,389
Taxes (and other nonexchange revenues)	7
Donations (nonexchange revenue)	50
Imputed financing	14
Other financing sources	<u>181</u>
NET RESULTS OF OPERATIONS	(537)
PRIOR PERIOD ADJUSTMENTS (note 15)	<u>(80)</u>
NET CHANGE IN CUMULATIVE RESULTS OF OPERATIONS	(617)
INCREASE (DECREASE) IN UNEXPENDED APPROPRIATIONS	<u>(6,796)</u>
CHANGE IN NET POSITION	(7,413)
NET POSITION—BEGINNING OF PERIOD	<u>16,099</u>
NET POSITION—END OF PERIOD	<u>\$ 8,686</u>

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
CONSOLIDATED STATEMENT OF BUDGETARY RESOURCES
For the year ended 30 September 1998
(In millions)
(Unaudited)

BUDGETARY RESOURCES

Budget authority	\$ 6,368
Unobligated balances—beginning of period	1,841
Spending authority from offsetting collections	1,523
Adjustments	<u>(1,130)</u>

TOTAL BUDGETARY RESOURCES \$ 8,602

STATUS OF BUDGETARY RESOURCES

Obligations incurred	\$ 6,805
Unobligated balances—available	895
Unobligated balances—not available	<u>902</u>

TOTAL, STATUS OF BUDGETARY RESOURCES \$ 8,602

OUTLAYS

Obligations incurred	\$ 6,805
Less: spending authority from offsetting collections and adjustments	(1,701)
Obligated balance, net—beginning of period	8,365
Obligated balance transferred, net	—
Less: obligated balance, net—end of period	<u>(8,441)</u>

TOTAL OUTLAYS \$ 5,028

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
CONSOLIDATED STATEMENT OF FINANCING
For the year ended 30 September 1998
(In millions)
(Unaudited)

OBLIGATIONS AND NONBUDGETARY RESOURCES

Obligations incurred	\$ 6,631
Less: Spending authority for offsetting collections and adjustments	1,325
Donations not in the budget	50
Financing imputed for cost subsidies	14
Exchange revenue not in the budget	(749)
Nonexchange revenue not in the budget	<u>2</u>

TOTAL OBLIGATIONS AS ADJUSTED, AND NONBUDGETARY RESOURCES 7,273

RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS

Change in amount of goods, services, and benefits ordered but not yet received or provided	(84)
Costs capitalized on the balance sheet	(700)
Financing sources that fund costs of prior periods	(53)
Other	<u>(146)</u>

TOTAL RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS (983)

COSTS THAT DO NOT REQUIRE RESOURCES

Depreciation and amortization	6
Revaluation of assets and liabilities	2
Other	<u>704</u>

TOTAL COSTS THAT DO NOT REQUIRE RESOURCES 712

FINANCING SOURCES YET TO BE PROVIDED 176

NET COST OF OPERATIONS \$ 7,178

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

These financial statements report USAID's financial position and results of operations.

A. Basis of Presentation

These financial statements 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. These statements are presented in accordance with the applicable form and content requirements of the Office of Management and Budget (OMB) Bulletin 97-01, Form and Content of Agency Financial Statements, and the Government Management Reform Act of 1994.

USAID accounting policies follow an "other comprehensive basis of account" as agreed to, and published by, the Director of the Office of Management and Budget, the Secretary of the Treasury, and the Comptroller General. These policies are based on the following hierarchy:

- Accounting standards and principles—known as Statements of Federal Financial Accounting Standards (SFFAS)—recommended by the Federal Accounting Standards Advisory Board (FASAB) and approved and issued by the above-named officials.
- Interpretations of SFFASs issued by OMB.
- Form and content requirements in OMB Bulletin 97-01
- Accounting standards in USAID's accounting policy manuals and handbooks
- Accounting principles published by authoritative standard-setting bodies such as the Financial Accounting Standards Board (FASB) and other authoritative sources 1) when no guidance is available from the other sources listed and 2) when the use of such principles and standards makes these financial statements more meaningful.

B. Reporting Entity

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

Programs

The financial statements reflect various activities, shown by appropriation, conducted by such programs as the Economic Support Fund, Development Assistance, Assistance for the New Independent States of the Former Soviet Union, Development Fund for Africa, Special Assistance Initiatives, International Disaster Assistance, International Organizations and Programs, and Direct and Guaranteed Loan Programs. This classification is consistent with the U.S. budget.

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.

DEVELOPMENT FUND FOR AFRICA

The Development Fund for Africa account provides development assistance to sub-Saharan African countries, to enhance Agency effectiveness in meeting Africa's development requirements. These resources finance both project and nonproject assistance to address shared development programs and policy objectives in reform-oriented African countries. The funds also support initiatives to promote economic growth, stabilize population growth, protect the environment, and foster increased democratic participation.

SPECIAL ASSISTANCE INITIATIVES

This program provides funds to support special assistance activities. The majority of funding for this program in 1997 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 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 reform; and improving the quality of life by, among other things, 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; support assistance in disaster preparedness, prevention and mitigation, as well as the longer term recovery efforts managed by the Office of Transition Initiatives.

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.

INTERNATIONAL ORGANIZATIONS AND PROGRAMS

The United States makes assessed payments and contributes to voluntary funds of more than 25 international organizations and programs involved in a wide range of sustainable development, humanitarian, and scientific activities.

DIRECT AND GUARANTEED LOAN PROGRAMS

The Direct Loans program is 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 borrower's currency. 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 borrower's foreign currency.

The *Urban and Environmental Program*, formerly the Housing Guarantee Program, extends guaranties to private U.S. investors who make loans to developing countries to help them formulate and execute sound housing and community development policies to meet the needs of lower income groups.

The *Micro and Small Enterprise Development Program* supports private sector activities in developing countries by providing direct loans and loan guaranties to support local micro and small enterprises.

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 will guarantee the repayment of up to \$10 billion in loans from commercial sources, to be borrowed in annual increments of \$2 billion. Guaranties are made by USAID on behalf of the U.S. government. Funding responsibility and basic administrative functions rest with the Agency.

The *Ukraine Export Credit Insurance Program* was established with the support of the U.S. Export-Import Bank to assist Ukrainian importers of American goods. The program commenced operations in fiscal year 1996 and is expected to expire in fiscal year 1999. Guaranties in the portfolio have maturities of 6 to 18 months.

Fund Types

The accompanying consolidated financial statements for USAID include the accounts of all funds under USAID's control. The Agency maintains 26 general funds, 1 special fund, 11 revolving funds, 4 trust funds, and 4 deposit funds.

General and special funds 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.

Deposit funds are established for 1) amounts 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 until their distribution has been legally determined.

TRUST FUNDS

The *foreign currency trust funds* were established to maintain foreign currencies owned by participating governments, which the Agency holds in trust. These funds are used to pay for program and operating expenses of USAID-related activities in a foreign country. Funds may be withdrawn only by mutual agreement between the participating government and the United States. If the bilateral agreement is terminated, all remaining funds revert to the participating government.

The *U.S. Dollar Advances From Foreign Governments Trust Fund* was established to maintain advances of U.S. dollars from foreign governments or international organizations to facilitate the purposes of the Foreign Assistance Act of 1961. USAID acts in a fiduciary capacity in carrying out specific activities and programs in accordance with bilateral agreements with foreign countries. The Agency draws from the Foreign Governments' Trust Fund balances to pay for related expenses.

The *Gifts and Donations Trust Fund* was established to maintain money, funds, property, and services of any kind made available by gift, device, bequest, and grant.

The *Foreign Service National Separation Pay Trust Fund* was established to fund and account for separation payments for eligible foreign service national employees who voluntarily terminate employment. It is applicable only in those countries

that, because of local compensation plans, accrue a lump-sum voluntary separation benefit based upon years of service and rate of pay.

The unexpended balance in trust funds at year end is recorded in the financial statements. Further, to the extent that the income from the trust funds is used toward USAID expenses, the income is recorded as “other income” in the financial statements.

SOCIAL PROGRESS TRUST AND ENTERPRISE DEVELOPMENT FUNDS

Though not recorded in the financial statement, USAID has established several unique loan and enterprise funds to support economic growth in accordance with the authorizing legislation. The major funds include the *Latin American Social Progress Trust Fund*, administered by the Inter-American Development Bank, *enterprise funds* in Central and Eastern Europe and the former Soviet Union, authorized under the Support for East European Democracy and Freedom Support Acts, and the *South African Enterprise Fund*.

USAID does not take an active role in managing these funds beyond authorizing their transfer for the U.S. government. There has been no financial control over these institutions since they were established. However, if the funds are terminated or liquidated, these funds should be returned to the U.S. government. The government has an equity interest in these funds, but they are not measurable and accordingly are not recorded in the financial statements.

C. Basis of Accounting

The accompanying financial statements have been prepared on an accrual basis. Under the accrual method of accounting, 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.

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 multiyear 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).

Pursuant to public law 101–510, unobligated balances associated with expired appropriations remain available for five years for obligation adjustments. At the end of the fifth year, expired appropriations are canceled and remaining funds are returned to Treasury.

Pursuant to section 511 of USAID’s Appropriation Act for fiscal years 1994 through 1998, or section 517 of USAID’s Appropriation Act for fiscal years 1987 through 1993, funds appropriated for certain purposes under the Foreign Assistance Act of 1961, as amended, shall remain available until expended if such funds are initially obligated within their period of availability.

E. Revenues and Other Financing Sources

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

Additional financing sources for USAID's various credit programs and trust funds include amounts obtained through collection of guaranty fees, interest income on rescheduled loans, penalty interest on delinquent balances, permanent indefinite borrowing authority from the 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 that 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's end.

H. Accounts Receivable

Accounts receivable are 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 nonloan or revenue-generating sources that have not been collected for a period of over one year.

I. Credit Program Receivable

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

For loans obligated on or after 1 October 1991, the loans receivable are reduced by an allowance equal to the present value of the subsidy costs (due to the interest rate differential between the loans and Treasury borrowing, the estimated delinquencies and defaults net of recoveries, the offset from fees, and other estimated cash flows) associated with these loans. This allowance is reestimated when necessary, and changes are reflected in the operating statement.

Loans are made in both U.S. dollars and foreign currencies. Loans extended in foreign currencies can be with or without "maintenance of value." 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 receivables 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 guaranteed loans. Receivables are stated net of an allowance for uncollectible accounts, determined using a country-specific identification 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 the 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 reports of expenditures from the recipients.

K. Operating Materials and Supplies

USAID has operating materials and supplies held for use that 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, and unserviceable operating materials and supplies.

L. Property, Plant, and Equipment

USAID capitalizes all property, plant, and equipment with 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. Internally developed and contractor-developed software is not capitalized because it is for internal Agency use only.

M. Liabilities

Liabilities represent the amount of monies or other resources 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 classified as liabilities not covered by budgetary resources (unfunded liabilities), and there is no certainty that the appropriations will be enacted. Also, USAID noncontract liabilities can be abrogated by the U.S. government, acting in its sovereign capacity.

N. Liabilities for Loan Guarantees

The Credit Reform Act of 1990, which became effective 1 October 1991, has significantly changed the manner in which USAID's loan programs finance their activities. The main purpose of the act was to more accurately measure the cost of federal credit programs and to place the cost of such programs on a basis equivalent to other federal spending. Beginning in fiscal year 1992, the loan program's funding for activities changed so that activities are funded through direct appropriation provided for that year only, rather than through cumulative appropriations granted in prior years and accumulated under the Revolving Fund.

For USAID's loan guarantee programs, when guarantee commitments are made, the program records a guarantee reserve in the program account. This reserve is based on the present value of the estimated net cash outflows to be paid by the program as a result of the loan guarantees, except for administrative cost, less the net present value of all revenues to be generated from those guarantees. When the loans are disbursed, the program transfers from the program account to the financing account the amount of the subsidy cost related to those loans. The amount of the subsidy cost transferred for a given loan is proportionate to the amount of the total loan disbursed.

For loan guarantees made before the Credit Reform Act, liabilities for loan guarantees for pre-1992 loans represent unfunded liabilities. For purposes of the financial statement, the unfunded amounts are shown separately from the post-1991 liabilities. The amount of unfunded liabilities also represents a future funding requirement to USAID. The liability is calculated using a reserve methodology similar to the 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

USAID employees are covered by one of four retirement plans. There are two civil service plans, the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS), and two foreign service plans, the Foreign Service Retirement and Disability System (FSRDS) and the Foreign Services Pension System (FSPS). The Agency contributes about 7.5 percent of an employee's gross salary for CSRS and FSRDS and about 24 percent of an employee's gross salary for FERS and FSPS.

Employees may elect to participate in the Thrift Savings Plan (TSP). Under this plan, FERS and FSPS employees may elect to have up to 10 percent, but not to exceed \$10,000, of gross earnings withheld from their salaries and receive matching contributions from a minimum of 1 percent to a maximum of 5 percent. CSRS and FSRDS employees may elect to have up to 5 percent of gross earnings withheld from their salaries but do not receive matching contributions.

USAID funds a portion of employee post-employment benefits and makes necessary payroll withholdings. It has no liability for future payments, nor is it responsible for reporting the assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to its employees for these programs. Reporting of such amounts is the responsibility of the Office of Personnel Management and the Federal Retirement Thrift Investment Board. Current-year operating expenses are charged for the full amount of employer post-employment benefits costs, with the unfunded portion charged to Other Revenue Sources—Imputed Financing, in accordance with SFFAS #7.

Foreign service nationals and third-country nationals at overseas posts who were hired before 1 January 1984 may be covered under CSRS. Employees hired after that date are covered under a variety of local government plans, in compliance with host country laws and regulations. In a limited number of cases, where no plans are regulated by the host country or where such plans are inadequate, the employees are covered by a privately managed pension plan to conform with prevailing practices among employers.

The Foreign Service National Separation Pay Trust Fund was established in 1991 by public law 102-138 to finance separation payments for eligible individuals, mainly foreign service nationals employed by USAID. The trust fund finances separation liabilities to employees who resign, retire, or lose their jobs because of a reduction in force. It is applicable only in those countries that, because of local law, require a lump-sum voluntary payment based on years of service.

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 appropriations not yet expended, including undelivered orders.
- 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 activity's inception.

NOTE 2. FUND BALANCES WITH TREASURY (in thousands)

Entity and Nonentity fund balances with Treasury as of 30 September 1998 were as follows:

Fund Balances	Entity Assets	Nonentity	Total
Appropriated	\$8,833,710	—	\$8,833,710
Trust funds	12,674	—	12,674
Revolving	891,658	—	891,658
Other funds	(3,124)	—	(3,124)
Total	\$9,734,918	—	\$9,734,918

On 30 September 1998 there was a cash reconciliation difference of \$60.1 million between the USAID and Department of Treasury fund balances. For fiscal year 1998 reporting purposes, the Agency adjusted its fund balance downward by this difference so it would equal the Treasury's fund balance. This was a change from previous years, when USAID reported the fund balance as recorded. Adjusting the Agency's fund balance to equal Treasury's fund balance brings consistency to various published reports. Past experience has shown the Department of Treasury's balances to be more accurate and the differences have usually been cleared when USAID processed the required disbursements.

The \$60.1 million cash reconciliation difference was posted to separate fund balance subaccounts, and the cash differences remain identified as such. USAID intends to perform a complete reconciliation of the amounts in these accounts and to make adjustments accordingly.

NOTE 3. ACCOUNTS RECEIVABLE, NET (in thousands)

The primary components of USAID's accounts receivable as of 30 September 1998 were as follows:

Entity	Receivable Gross	Allowance Accounts	Receivable Net
<i>Intragovernmental</i>			
Appropriation reimbursements from federal agencies	\$208	—	\$208
Accounts receivable from federal agencies	1,040	—	1,040
Disbursing authority receivable from USDA	501,299	—	501,299
Total intragovernmental	502,547	—	502,547
<i>Governmental</i>			
Accounts receivable	11,201	9,543	1,658
Total governmental	11,201	9,543	1,658
Total entity	513,748	9,543	504,205
Nonentity	—	—	—
Total receivables	\$513,748	\$9,543	\$504,205
Reconciliation of Uncollectible Amounts (Allowance Accounts)			
Beginning balance	\$10,379		
Additions	1,136		
Reductions	(1,972)		
Ending balance	\$9,543		

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 P.L. 480, 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.

Entity governmental accounts receivable are amounts managed by field missions or USAID/Washington. These receivables consist of such non-program-related receivables as overdue advances, erroneous payments, audit findings, and the interest on all three. A 100 percent allowance for uncollectible amounts is estimated for governmental accounts receivable that are more than a year past due. Accounts receivable from missions are collected and recorded under the appropriate appropriation.

NOTE 4. ADVANCES AND PREPAYMENTS (in thousands)

Advances and prepayments as of 30 September 1998 consisted of the following:

Intragovernmental	
Advances to federal agencies	\$37,965
Total	\$37,965
Governmental	
Advances to contractors/grantees	\$887,584
Travel advances	4,182
Advances to host country governments and institutions	141,149
Prepayments	2,253
Advances, other	694
Total	\$1,035,862

Advances to host country governments and institutions are amounts advanced by USAID missions to host country governments and other in-country organizations, such as educational institutions and voluntary organizations. Other advances are primarily amounts advanced for living quarters and home service.

NOTE 5. CREDIT PROGRAM RECEIVABLES AND LIABILITIES FOR LOAN GUARANTEES (in thousands)

USAID operates the following loan and 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)
- Israeli Loan Guarantee Program (Israel)

Direct loan obligations or loan guarantee commitments made before fiscal year 1992, and the resulting direct loans or loan guarantees, are reported net of allowance for estimated uncollectible loans or estimated losses.

Direct loan obligations or loan guarantee commitments made after fiscal year 1991, and the resulting direct loans or loan guarantees, are governed by the Federal Credit Reform Act. This act provides that the present value of the subsidy costs (that is, interest rate differentials, interest subsidies, estimated delinquencies and defaults, fee offsets, and other cash flows) associated with direct loans and loan guarantees be recognized as a cost in the year in which the direct or guaranteed loan is disbursed.

An analysis of loans receivable, loan guarantees, liability for loan guarantees, and the nature and amounts of the subsidy costs associated with loans and loan guarantees is provided in the following sections.

The following net loan receivable amounts are not the same as the proceeds that USAID would expect to receive from selling its loans. Actual proceeds may be higher or lower, depending on the borrower and the status of the loan.

Direct Loans Obligated Before FY92

<u>Loan Programs</u>	<u>Loans Receivables Gross</u>	<u>Interest Receivable</u>	<u>Allowance For Loan Losses</u>	<u>Value of Assets Related to Direct Value of Assets Loans</u>
Direct Loan	\$11,566,448	\$442,621	\$5,856,377	\$6,152,692
MSED	4,298	22	3,294	1,026
Total	\$11,570,746	\$442,643	\$5,859,671	\$6,153,718

Direct Loans Obligated After FY91

<u>Loan Programs</u>	<u>Loans Receivables Gross</u>	<u>Interest Receivable</u>	<u>Allowance For Subsidy Cost</u>	<u>Value of Assets Related to Direct Loans</u>
Direct Loan	\$283,355	—	\$142,144	\$141,211
MSED	1,968	\$28	173	1,823
Total	\$285,323	\$28	\$142,317	\$143,034

Defaulted Guaranteed Loans From pre-1992 Guarantees

<u>Loan Guarantee Programs</u>	<u>Defaulted Guaranteed Loan Receivable, Gross</u>	<u>Interest Receivable</u>	<u>Allowance For Loan Losses</u>	<u>Defaulted Guaranteed Loan Receivable, Net</u>
UE	\$505,579	\$20,210	\$240,959	\$284,830
Total	\$505,579	\$20,210	\$240,959	\$284,830

Defaulted Guaranteed Loans From post-1991 Guarantees

There were no defaults on post-1991 guarantees for FY98.

Guaranteed Loans Outstanding

<u>Loan Programs</u>	<u>Outstanding Principal Guaranteed Loans, Face Value</u>	<u>Amount Outstanding Principal Guaranteed</u>
UE	\$2,241,671	\$2,241,671
MSED	30,598	15,299
Ukraine	141,236	141,236
Israel	9,226,200	9,226,200
Total	\$11,639,705	\$11,624,406

Loan Guarantees Outstanding are not presented on the face of the financial statement but instead are used to calculate the liability for loan guarantees presented below.

<u>Loan Programs</u>	<u>Liability for Losses on Pre-1992 Guarantees, Estimate Future Default Claims</u>	<u>Liabilities for Loan Guarantees for Post- 1991 Guarantees Present Value</u>	<u>Total Liabilities for Loan Guarantees</u>
UE	\$347,709	\$49,889	\$397,598
MSED	—	1,965	1,965
Ukraine	—	28,135	28,135
Israel	—	515,076	515,076
Total	\$347,709	\$595,065	\$942,774

Subsidy Expenses for Post-1991 Direct Loans*1 Current Year's Loan Guarantees*

There have been no new loans disbursed in the past two years.

2 Direct Loan Modification and Reestimates

There have been no modifications and reestimates.

Subsidy Expenses for Post-1991 Loan Guarantees*1 Current Year's Loan Guarantees*

<u>Loan Programs</u>	<u>Defaults</u>	<u>Fees</u>	<u>Interest Supplement</u>	<u>Total</u>
UE	\$11,784	\$4,119	—	\$7,665
MSED	—	—	—	—
Ukraine	—	—	—	—
Israel	63,534	63,534	—	—
Total	\$75,318	\$67,653	—	\$7,665

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2 Loan Guarantee Modifications and Reestimates

There have been no modifications and reestimates.

3 Total Loan Guarantee Subsidy Expenses

<u>Loan Programs</u>	<u>Defaults</u>	<u>Fees</u>	<u>Interest Supplement</u>	<u>Total</u>
UE	\$11,784	\$4,119	—	\$7,665
MSED	—	—	—	—
Ukraine	—	—	—	—
Israel	63,534	63,534	—	—
Total	\$75,318	\$67,652,914	—	\$7,665

Administrative Expenses

Loan Programs	
Direct Loan	—
UE	\$6,506
MSED	855
Ukraine	65
Total	\$7,426

NOTE 6. CASH AND OTHER MONETARY ASSETS (in thousands)

Cash and other monetary assets as of 30 September 1998 are as follows:

Entity Cash and Other Monetary Assets	
Undeposited collections	1
HGP and Micro and Small Enterprise Fund	
Other Cash	40
Foreign currencies with	
U.S. Treasury	172,144
Total Entity Cash and Other Monetary Assets	\$172,185
Nonentity Cash and Other Monetary Assets	
	—
Total Cash and Other Monetary Assets	\$172,185

USAID has imprest funds in various locations overseas. These funds are provided by Department of State overseas U.S. disbursing officers, and USAID is liable for any shortages. USAID's portion of the Department of State imprest funds provided to USAID is \$2.4 million. These imprest funds are not included in the Agency's balance sheet. Foreign currencies with U.S. Treasury included \$172 million related to foreign currency trust funds.

NOTE 7. OPERATING MATERIALS AND SUPPLIES (in thousands)

Operating supplies and materials as of 30 September 1998 are as follows:

Items Held for Use	
Office supplies	\$5,625
Items Held in Reserve for Future Use	
Disaster assistance materials and supplies	4,112
Birth-control supplies	17,289
Total	\$27,026

Operating materials and supplies include office supplies held for use, disaster assistance materials and supplies, and birth-control supplies held in reserve for future use. They are valued at historical cost and are considered not held for sale.

NOTE 8. PROPERTY, PLANT, AND EQUIPMENT, NET (in thousands)

The components of PP&E on 30 September 1998 were as follows:

Classes of Fixed Assets	Useful Life	Cost	Accumulated Depreciation	Net Book Value
Equipment	3 to 5 years	\$28,820	\$21,498	\$7,322
Structures, facilities, & leasehold improvements	20 years	27,749	11,435	16,314
Land	N/A	3,706	N/A	3,706
Assets under capital lease		136	136	—
Construction in progress	N/A	778	N/A	778
Total		\$61,189	\$33,069	\$28,120

USAID PP&E includes assets in Washington, D.C. offices and overseas field missions. The Agency capitalizes PP&E when the original acquisition cost is \$25,000 or greater and when the asset has a useful life of two or more years. USAID uses the straight-line method of depreciation.

Equipment consists mainly of electric generators, ADP hardware, vehicles, and copiers located at the overseas 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 sits.

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.

The capitalized leases are four bungalows in Kenya that USAID has exercised its lease purchase options on that are in litigation.

Construction in progress consists primarily of new facilities.

In addition to its capitalized leases, the building in which the Agency operates is leased by the General Services Administration, and USAID is charged rent intended to approximate commercial rental rates. The lease is for 20 years, but USAID and GSA are currently negotiating to extend the lease term to 30 years. Lease payments for fiscal year 1998 amounted to \$26.1 million. GSA is requesting a 10 percent increase for fiscal year 1999.

NOTE 9. ACCOUNTS PAYABLE (in thousands)

The accounts payable covered by budgetary resources as of 30 September 1998 consisted of the following:

Intragovernmental	
Accounts payable	\$209,674
Disbursements in transit	125
Total Intragovernmental	209,799
Governmental	
Accounts payable	1,487,020
Disbursements in transit	1,133
Total Governmental	1,488,153
Total Accounts Payable	\$1,697,952

Intragovernmental accounts payable are those payable to other federal agencies. They consist mainly of unliquidated obligation balances related to interagency agreements between USAID and other federal agencies.

Governmental accounts payable represent liabilities to other nongovernmental entities.

NOTE 10. DEBT (in thousands)

USAID intragovernmental debt as of 30 September 1998 consisted of the following borrowings from Treasury for post-1991 loan programs:

	<u>Beginning Balance</u>	<u>Net Borrowing</u>	<u>Ending Balance</u>
Urban & Environmental	\$85,000	\$(13,000)	\$72,000
Direct loan	234,158	76	234,234
MSED	2,099	(222)	1,877
Total Debt	\$321,257	(\$13,146)	\$308,111

NOTE 11. OTHER LIABILITIES (in thousands)

As of 30 September 1998, other liabilities consisted of the following:

Intragovernmental	
Due to U.S. Treasury	\$6,200,695
OPAC suspense	8,016
Deposit and clearing accounts	(3,151)
Due to Treasury	102
Other	16,783
Total Intragovernmental	6,222,445
Governmental	
Accrued funded payroll/benefits	9,861
Unamortized origination fees	2,094
Foreign currency trust fund	170,927
Trust fund balances	12,674
Total Governmental	195,556
Total Other Liabilities	\$6,418,001

Intragovernmental liabilities are amounts due to other federal agencies. Other governmental liabilities are liabilities to nonfederal entities.

NOTE 12. ACCRUED UNFUNDED ANNUAL LEAVE AND SEPARATION PAY (in thousands)

Accrued unfunded benefits for annual leave and separation pay as of 30 September 1998 are as follows:

Liabilities Not Covered by Budgetary Resources	
Governmental	
Accrued annual leave	\$26,557
Separation-pay liability for foreign service nationals	1,086
Total Accrued Unfunded Annual Leave and Separation Pay	\$27,643

NOTE 13. ACCRUED UNFUNDED WORKERS' COMPENSATION BENEFITS (in thousands)

The provision for workers' compensation benefits payable as of 30 September 1998 are as follows:

Liabilities Not Covered by Budgetary Resources

Governmental

Accrued unfunded workers' compensation	\$6,764
Future workers' compensation benefits	35,005

Total Accrued Unfunded Workers' Compensation Benefits

\$41,769

The Federal Employees Compensation Act (FECA) program, administered by the U.S. Department of Labor, 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 also given to beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. The Department of Labor 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 \$41.7 million as of 30 September 1998. It consists of unpaid FECA billings for \$6.7 million and estimated future FECA costs of \$35 million. Estimated future FECA costs are determined by the Department of Labor. This liability is determined through the use of a paid-losses extrapolation method calculated over a 37-year period. This method uses historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. These annual benefit payments have been discounted to present value. The interest-rate assumptions used for discounting were 5.6 percent in year 1 and thereafter.

NOTE 14. INTEREST AND PENALTIES, NONFEDERAL (in thousands)

Nonfederal interest and penalties as of 30 September 1998 consisted of the following:

Interest and Penalties, Nonfederal

Interest income	\$710,138
Income from penalties	6,601
Total	716,739

Less: transfers to Treasury	572,224
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Total Interest and Penalties, Nonfederal	\$144,515
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NOTE 15. ADJUSTMENTS (in thousands)

Prior Period Adjustments as of 30 September 1998 consisted of the following:

Equipment	\$17,891
Structures, Facilities, & Leasehold Improvements	10,072
Credit Program Equipment	1,977
Fund Balance with Treasury	<u>\$50,032</u>
	\$79,972

FY 1998 is the first year USAID is depreciating its property, plant, and equipment in accordance with the Statement of Federal Financing Accounting Standard (SFFAS) Number 6, *Accounting for Property, Plant, and Equipment*. By implementing this standard, prior period adjustments of \$27.9 million were recorded to properly value PP&E.

Also during FY 1998, the Credit Program increased its capitalization threshold for PP&E to \$25,000 to be consistent with USAID's capitalization threshold. A prior period adjustment of \$1.9 million was recorded to expense property that did not meet the \$25,000 threshold.

Additionally, in FY 1998, USAID adjusted its Fund Balance to equal Treasury's Fund Balance. However, a portion of this adjustment related to FY 1997 and was classified as a prior period adjustment.

NOTE 16. TOTAL COST AND EARNED REVENUE BY BUDGET FUNCTIONAL CLASSIFICATION (in thousands)

Total cost and earned revenue by budget functional classification, as of 30 September 1998 is as follows:

Function Classification	Total Cost	Earned Revenue	Net Cost
International affairs - 150	\$7,358,806	\$181,807	\$7,176,999
Income security - 600	948	—	948
Total	\$7,359,754	\$181,807	\$7,177,947

NOTE 17. DIFFERENCES BETWEEN THE STATEMENT OF BUDGETARY RESOURCES AND THE U.S. GOVERNMENT BUDGET (in thousands)

Differences exist between the information presented on the Statement of Budgetary Resources and the amounts described as “actual” in the budget of the U.S. government (the Budget). These differences occur because funds are appropriated to USAID and then allocated out to other agencies. In those cases, the related funds are not included in the Agency’s Statement of Budgetary Resources but are included in its part of the Budget. But sometimes funds that are appropriated to other agencies are then allocated to USAID. In those cases, related funds are included in the Agency’s Statement of Budgetary Resources but are not included in its part of the Budget.

The amounts related to other agency activity as of 30 September 1998 are as follows:

	Allocated to Other Agencies	Allocated From Other Agencies
Budgetary Resources		
Budget authority	362,714	427,797
Unobligated balance	11,661	175
Spending authority from offsetting collections	4	—
Adjustments	604	7,004
Total Budgetary Resources	374,983	434,976
Status of Budgetary Resources		
Obligations incurred	352,696	415,752
Unobligated balances available	18,994	19,224
Unobligated balances not available	3,293	—
Total Status of Budgetary Resources	374,983	434,976
Obligated balance, net—beginning of period	146,688	466,013
Obligated balance transferred, net	—	—
Obligated balance, net—end of period	119,256	540,137
Outlays	370,905	334,624

NOTE 18. CONTINGENCIES (in thousands)

USAID is involved in certain claims, suits, and complaints that have been filed or are pending. These events occurred in the ordinary course of Agency operations and are not expected to have a material adverse effect on the Agency's financial position.

Ten contract appeals in which the Agency is involved (totaling more than \$20 million) are currently before the Armed Service Board of Contract Appeals. It is reasonably possible that damages will be assessed against USAID in these cases. Should there be any judgment in favor of a contractor, the Agency could also be liable for indeterminable attorney's fees and interest under the Contract Disputes Act.

Seven cases against USAID are pending in the U.S. Court of Federal Claims. These cases total about \$3 million, and it is reasonably possible that damages will be assessed against USAID. Again, should there be any judgment in favor of a contractor, the Agency could also be liable for attorney's fees and interest under the Contract Disputes Act. It is not possible at this time to estimate what those amounts might be.

The Agency is involved in eight cases pending appellate decision or awaiting initial stage processing or hearing before the Equal Employment Opportunity Commission. All eight cases involve a reasonable possibility of loss for the Agency, for an estimated total amount of \$1.1 million.

Five cases in which USAID is involved are pending before the Foreign Service Grievance Board, involving cognizable claims under chapter 11 of the Foreign Service Act of 1980, as amended. They involve the probable likelihood of financial loss to USAID of more than \$1 million, less indeterminable offsets under the Backpay Act.

In addition, three appeals pending before the Merit Systems Protection Board involve a reasonable possibility of loss to USAID in the amount of \$450,000, less indeterminable offsets.

The building in which USAID operates is leased by the General Services Administration (GSA). USAID is charged rent intended to approximate commercial rent rates. The lease is for 20 years. However, USAID and GSA are currently involved in negotiations to extend the lease term to 30 years. Lease payments for FY 1998 amounted to \$26.1 million. GSA is requesting a 10% increase for FY 1999.

Supplemental Financial Information

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
STATEMENT OF SUPPLEMENTAL INFORMATION BY MAJOR APPROPRIATION
For the Period Ending 30 September 1998
(In millions)
(Unaudited)

	Program Fund						Operating Fund		Other	Consolidated Total
	1010	1021	1035	1037	1093	1095	1000	4336		
Budgetary Resources:										
Budget authority	419	1,170	190	2,381	563	550	479	425	191	6,368
Unobligated balances—beginning of period	154	269	38	282	228	37	34	—	799	1,841
Spending authority from offsetting collections	—	2	—	—	—	—	7	—	1,514	1,523
Adjustments	20	26	1	41	19	—	12	7	(1,256)	(1,130)
Total budgetary resources	593	1,467	229	2,704	810	587	532	432	1,248	8,602
Status of Budgetary Resources										
Obligations incurred	459	1,345	221	2,456	606	529	511	413	265	6,805
Unobligated balances—available	134	121	8	247	204	58	20	19	84	895
Unobligated balances—not available	—	1	—	1	—	—	1	—	899	902
Total, status of budgetary resources	593	1,467	229	2,704	810	587	532	432	1,248	8,602
Outlays:										
Obligations incurred	459	1,345	221	2,456	606	529	511	413	265	6,805
Less: spending authority from offsetting collections and adjustments	(19)	(28)	(1)	(41)	(19)	—	(19)	(7)	(1,567)	(1,701)
Obligated balance, net—beginning of period	622	1,698	238	2,937	888	456	212	466	848	8,365
Obligated balance transferred, net	—	—	—	—	—	—	—	—	—	—
Less: obligated balance, net—end of period	623	1,566	309	2,931	860	835	206	538	573	8,441
Total outlays	439	1,449	149	2,421	615	150	498	334	(1,027)	5,028

MAJOR FUNDS

Program Fund

1010	Special assistance initiatives
1021	Development assistance
1035	International disaster assistance
1037	Economic Support Fund
1093	Assistance for the New Independent States of the former Soviet Union
1095	Child survival and disease programs funds

Operating Fund

1000	Operating expenses of USAID
4336	Commodity Credit Corporation (from U.S. Department of Agriculture)

OTHER FUNDS

Credit Program Funds

Operating Funds

0113	Salaries & expenses—diplomatic security
0535	Acquisition & maintenance of building abroad
1007	Operating expenses of USAID Inspector General
1036	Foreign Service Retirement and Disability Fund

OTHER FUNDS (cont'd)

Program Funds

1005	International organizations and programs
1012	Sahel Development program
1013	American schools and hospitals abroad
1014	Africa development assistance
1023	Food and nutrition development assistance
1024	Population and planning & health dev. asst.
1025	Education and human resources, dev. asst.
1038	Central American reconciliation assistance
1040	Sub-Saharan Africa disaster assistance
1075	Antiterrorism demining
1500	Demobilization and transition fund

Trust Funds

8342	Foreign Natl. Employees Separation Liability Fund
8502	Tech. assist.—U.S. dollars advance from foreign governments
8824	Gifts and donations

Revolving Funds

4175	Property Management Fund
4590	Acquisition of property, revolving fund

The accompanying notes are an integral part of these statements.



April 1999

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