FY 2002

USAID

United States Agency for International Development

Performance and Accountability Report

Transmittal Letter from the Administrator: Andrew S. Natsios

I am pleased to present to you the U.S. Agency for International Development's (USAID) *Performance and Accountability Report for Fiscal Year 2002*. The report is intended to help the public, the Administration, and the Congress assess the Agency's program performance and management.

The year 2002 was a challenging one for USAID, as we faced the consequences of the war on terrorism and the continuing threats that hunger, poverty and infectious diseases like HIV/AIDS pose to our national security.

President Bush's National Security Strategy acknowledged these threats and raised the strategic importance of development to the point that it is now an essential pillar of U.S. foreign policy alongside defense and diplomacy.

In his cover letter to the Strategy, the President wrote: "Throughout history, freedom has been threatened by war and terror; it has been challenged by the clashing wills of powerful states and the evil designs of tyrants; and it has been tested by widespread poverty and disease. Today, humanity holds in its hand the opportunity to further freedom's triumph over all these foes. The United States welcomes our responsibility to lead in this great mission."

USAID demonstrated that leadership in several important areas during FY 2002. In Afghanistan, our humanitarian efforts helped prevent a famine. Even before the Taliban was driven from power, our teams were on the ground, helping the Afghans prepare for a brighter future. Over the course of the year, we printed 10 million text books so that schools could open on time in March. We lent critical support to the Karzai Government, vaccinated millions of children, trained teachers, and put people to work building roads, repairing irrigation systems, and refurbishing health clinics, schools and government ministries. The 7,000 tons of improved drought-resistant seed we provided last spring, along with other efforts, contributed to an 82% increase in wheat production this summer.

USAID also took the lead in supplying critically needed food to Africa in FY 2002. Working with USDA, we provided nearly a half million metric tons of food to 14.4 million hungry people in southern Africa, and beginning this August we provided hundreds of thousand of tons to the Horn of Africa, as well.

This Agency works in some of the most difficult environments in the world. Two-thirds of the countries where we have programs experienced violent conflict during the past five years. Many of them risk falling prey to violence again. One of the areas where we began building new capacity in FY 2002, therefore, was conflict management.

Another important area of our activities is trade promotion and capacity-building. As President Bush has said, "Trade is the engine of development." While we work closely with the U.S. Trade Representative, USAID does 70% of this country's international trade programming. With the passage of the Trade Act of 2002, we are increasing these efforts to help achieve the President's goal of achieving a Free Trade Area of the Americas by 2005.

One of my major priorities has been improving USAID's financial management systems. I am pleased to report that our financial reporting systems have shown improvement during FY 2002. For the first time, our Inspector General issued opinions on all five of our principal financial statements.

We also made considerable progress toward achieving the President's Management Agenda goals, receiving "green lights" for progress in strategic management of human capital and in budget and performance integration during the last quarter of FY 2002. While we are making progress in the other three areas, significant work remains. I can assure you that we will continue to work aggressively to improve our performance in all of them.

Finally, I would like to state that, as of September 30, USAID's management accountability and control systems provided reasonable assurance that the objectives of the Federal Managers' Financial Integrity Act were achieved, with the exception of the material weaknesses noted in the Management Control Program section of the Performance and Accountability Report. I base this statement on the results of an Agency-wide management control assessment and input from senior USAID officials. In addition to this statement, I certify that the financial and performance data in the PAR is reliable and complete. A detailed discussion of the material inadequacies and actions USAID is taking to resolve them is provided in this report.

Just over a year ago, Secretary of State Colin Powell described USAID's mission in these terms: "You bring hope to people. You bring the American value system to the darkest corners of the world." As the FY 2002 Performance and Accountability Report shows, we have done our best to live up to that high standard. But we still have work to do. I look forward to making further improvements in FY 2003.

Andrew S. Natsios

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

Table of Contents

Executive Summary

The U.S. Agency for International Development (USAID) is the principal U.S. agency providing foreign assistance to developing and transitional countries. As such, it is one of the three legs of our nation's foreign policy apparatus: the Department of Defense, overseeing protection from foreign adversaries; the Department of State, overseeing our diplomatic agenda; and USAID, overseeing foreign assistance to lessen disparities that cause global instability.

Less than one-half of one percent of the Federal budget is spent to pursue USAID's overarching development goals to encourage economic growth, enhance global health, mitigate conflict, promote democratic values, and provide humanitarian assistance. Secretary of State Colin Powell said recently, "USAID is an important part of our country's foreign policy team. Its work is at the core of our engagement with the world. Over the long term, our foreign assistance programs are among our most powerful national security tools."

USAID has given new focus and impetus to the role that foreign assistance can play in enhancing national security and promoting a sound economic development agenda. This is reflected in the President's National Security Strategy of the United States, issued on September 17, 2002. Specifically, the President committed the United States to:

- *Provide resources to aid countries that have met the challenge of national reform,* proposing a 50% increase in core U.S. development assistance to countries whose governments rule justly, invest in their people, and encourage economic freedom.
- *Promote the connection between trade and development,* recognizing that they are the real engines of growth. When nations respect their people, open their markets, and invest in better health and education, every dollar of aid and trade revenue is used more effectively.
- *Secure public health,* particularly in poor countries afflicted by epidemics and pandemics like Human Immunodeficiency Virus/Acquired Immunodeficiency Syndrome (HIV/AIDS), malaria, and tuberculosis.
- *Emphasize education,* noting that literacy and learning are the foundation of democracy and development.
- *Aid agricultural development,* using new technologies to help improve crop yields in developing countries and help more than 300 million children still suffering from hunger and malnutrition.
- *Insist upon measurable results* to ensure that development assistance is actually making a difference in developing and transition countries, especially in the lives of the poor.

These themes and priorities are elaborated in this report. **The FY 2002 Performance and Accountability Report** (PAR) represents the first time that the *Annual Performance Report* required under the Government Performance and Results Act and the *Annual Accountability Report* required under the Chief Financial Officers Act have been consolidated into a single document. The FY 2002 Performance and Accountability Report is intended to help the public, the Administration and the Congress assess USAID's program performance and management stewardship. The PAR is one of two reports USAID prepares annually to describe its financial position and the results of operations. For FY 2002, the second report is the Agency's FY 2004 Budget Justification.

The FY 2002 PAR reflects the President's commitment to fund development assistance, based on measurable goals and concrete benchmarks for achieving these goals. The report is organized in four major sections as follows:

The *Management Discussion and Analysis* section, beginning on page 5, summarizes the performance of the Agency's foreign assistance programs and the corporate stewardship of USAID business systems. The first part of this section summarizes the performance information that is presented in much greater detail in the Performance Section of the report.

Since his confirmation, USAID Administrator Andrew Natsios has made transformation of the Agency into a premier, high-performance international development and humanitarian assistance organization, one of his highest priorities. During FY 2002, the Agency began implementing a Business Transformation Plan that addresses both the President's Management Agenda (PMA) and the Administrator's vision for the Agency along the following dimensions:

- Strategic Management of Human Capital includes reforms to improve USAID's human resources management capacities. While staff recruitment is a U.S. Government wide challenge, USAID faces particular difficulties, given the need for diffuse sectoral skills—from health to agronomy and from

Executive Summary

judicial reform to education—and the long lead time required for security and medical clearances. To address these human capital challenges and reposition staff where they are most needed in the field, USAID completed an Agencywide reorganization and is working on a Human Capital Strategic and Action Plan. As a result of these efforts, USAID received a green progress rating for the *PMA Human Capital* requirements.

- Strategic Management of Intellectual Capital includes plans to improve USAID knowledge management and sharing of lessons learned and collaboration, while enhancing the Agency's position as the world's leader in the technical competencies of foreign assistance. This initiative directly addresses the objectives for knowledge management and organizational learning in the *PMA Human Capital* initiative, as well as *PMA e-Government* objectives for technology-enabled business transformation.

- Business Systems Modernization (BSM) includes reforms to USAID financial management, acquisition and assistance, and information technology (IT) management capabilities. At present, while all USAID managed funds are recorded in the general ledgers of the core accounting system, nearly 50% of the funds are controlled in overseas missions without access to the core accounting system. For FY 2002, USAID received a yellow progress rating on *PMA Financial Performance* initiatives.

- Budget and Performance Integration includes reforms in the USAID strategic planning, budgeting, and decision-making process to become more performance-driven. The Agency made substantial progress in developing a new strategic budgeting model for its country-level foreign assistance allocations and received a green progress rating for the *PMA Budget and Performance Integration* initiative. Finally, USAID is developing a joint Strategic Plan for FY 2004-2009 with the U.S. Department of State to create a framework for better aligning foreign assistance programs.

The *Financial Highlights* section, beginning on page 38, presents the Agency's audited consolidated financial statements and accompanying notes for the year ended September 30, 2002. During FY 2002, USAID received over $7.9 billion in direct appropriations, and an additional $820 million for transferred appropriations. The Agency obligated more than 86% of all available budgetary resources for the year. Appropriations increased by 13% from FY 2001 in the following major appropriations:

- $715 million for the Economic Support Fund
- $581 million for the Child Survival and Health Programs
- $193 million for the Assistance for the Independent States of the Former Soviet Union

In FY 2002, approximately 84% of all USAID costs incurred were directly related to support of USAID programs. Operating expenses incurred for the Agency's general operations (e.g., salaries, training, support for the Office of Inspector General) accounted for approximately 16% of the total USAID cost. Overall, costs increased by 11% from FY 2001, which is consistent with the increase in appropriated funds for additional program and operational activity.

The *Independent Auditor's Report on USAID's FY 2002 Statements,* beginning on page 90 incorporates the Office of Inspector General's opinion on the fairness of the Agency's financial statements in accordance with generally accepted accounting principles and the adequacy of the Agency's controls over the obligation and expenditure of budgetary resources. For its FY 2002 financial operations, the Agency received its first opinion on all five principal financial statements.

The *Program Performance* section, beginning on page 123, discusses in-depth program performance along the Agency's four developmental pillars—Economic Growth, Agriculture, and Trade; Global Health; Democracy, Conflict, and Humanitarian Assistance; and the Global Development Alliance. The data presented in this section compare performance by strategic objectives at the operating unit level over three-year FY 1999—FY 2001 period. A strategic objective (SO) is the highest-level result that a USAID operating unit and its partners can materially affect, given the time and resources available.

USAID pursues multiple strategic objectives in more than 100 countries around the world. Individual country programs are tailored to local conditions. This wide array of activities under way worldwide at any given time, taken together, constitutes Agency performance. Agencywide, of the 444 strategic objectives that were in place during FY 2002, 88% of the Agency's strategic objectives met or exceeded targets. 41 strategic objectives, or 9%, did not meet their targets. Fifteen strategic objectives, or 3%, were not assessed. These aggregated results exceeded the Agencywide FY 2002 threshold to have 85% of strategic objectives meet or exceed their targets.

High profile Agency accomplishments during FY 2002 include the following:

- The United States led the international community in providing assistance to Afghanistan. The United States provided $588 million to help the Afghans; USAID managed more than $350 million of this assistance. USAID responded to the humanitarian crisis by providing food, emergency supplies, health care, communications, and transport. Between October 2001 and December 2002, USAID helped rebuild 4,000 kilometers of rural roadways, 31 bridges, 850 kilometers of irrigation tunnels and canals, and reconditioned 16 government ministry buildings. 142 schools, daycare centers and vocational education facilities have been rebuilt. USAID has trained 1,300 teachers who will return to village schools to train local teachers. The 7,000 tons of seed the Agency provided last spring increased last summer's wheat production in Afghanistan by 82%.

- In FY 2002, USAID's HIV/AIDS funding increased to $510 million. A new Office of HIV/AIDS was created within the Bureau of Global Health. USAID is now providing assistance to more than 50 countries—by strengthening prevention, treatment, and surveillance programs and by providing vital services to orphans and other children affected by AIDS. USAID has also contributed critical technical and management expertise to the formation of the new Global Fund for AIDS, Tuberculosis, and Malaria, which will attract and deploy more resources for combating AIDS worldwide.

- The food crisis in southern Africa is severe, affecting an estimated 14.4 million people in six countries: Lesotho, Malawi, Mozambique, Swaziland, Zambia, and Zimbabwe. USAID has monitored the food shortage in southern Africa since December 2001 and began providing food to the region in February 2002. The United States has delivered or pledged more than 499,000 metric tons of food aid since the beginning of 2002. At a total value of more than $266 million, the U.S. Government is the largest donor to the World Food Program's operations in southern Africa.

Electronic copies of this document are available at the Agency's World Wide Web Site:
www.usaid.gov/pubs/par02/

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

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Mission Statement

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 Strategic Plan (Revised 2000)

All photographs from USAID Archives

Part 1: Management Discussion and Analysis

INTRODUCTION

The U.S. Agency for International Development (USAID) is the principal U.S. agency providing foreign assistance to developing and transitional countries. As such, it is one of the three legs of our nation's foreign policy apparatus: the Department of Defense, overseeing protection from foreign adversaries; the Department of State, overseeing our diplomatic agenda; and USAID, overseeing foreign assistance to lessen disparities that cause global instability. Less than one-half of one percent of the Federal budget is spent to pursue USAID's overarching development goals to encourage economic growth, enhance global health, mitigate conflict, promote democratic values, and provide humanitarian assistance. Secretary of State Colin Powell said recently, "USAID is an important part of our country's foreign policy team. Its work is at the core of our engagement with the world. Over the long term, our foreign assistance programs are among our most powerful national security tools."

Even before September 11, 2001, U.S. interests in the developing world had changed, becoming more pressing and significant to American economic and security interests. USAID moved from an era dominated by Cold War politics and issues of containment to one where globalization and the challenges of terrorism and world economic growth increasingly occupy the Agency agenda. The challenges of this new era center on promoting good governance and managing conflict across the globe, as well as erasing illiteracy and stemming the spread of infectious disease. Today, U.S. foreign policy interests are predicated not only on traditional security concerns but also on maintaining a liberalized international economic system and on supporting democratic capitalism as the preferred model of governance. The global focus on terrorism brings opportunities to advance the rule of law and economic prosperity and to help countries develop a stake in global integration and stability.

For the past 54 years since the Marshall Plan, the United States has sought—with substantial success—to better the lives of the world's poorest citizens. Yet as globalization brings the world closer together, the problems of the developing world from a national and economic security perspective become more acute.

USAID has given new focus to the role that foreign assistance can play in enhancing national security and promoting a sound economic development agenda. This is reflected in the President's National Security Strategy of the United States, issued on September 17, 2002. Specifically, the President committed the United States to:

- *Provide resources to aid countries that have met the challenge of national reform,* proposing a 50% increase in core U.S. development assistance to countries whose governments rule justly, invest in their people, and encourage economic freedom. This describes the Millennium Challenge Account (MCA), which will begin in FY 2004.
- *Promote the connection between trade and development,* recognizing that they are the real engines of growth. When nations respect their people, open their markets, and invest in better health and education, every dollar of aid and trade revenue is used more effectively. Initiatives such as the Free Trade Area of the Americas and the Trade for African Development and Enterprise Initiative (TRADE) illustrate these principles well.
- *Secure public health,* particularly in poor countries afflicted by epidemics and pandemics like Human Immunodeficiency Virus/Acquired Immunodeficiency Syndrome (HIV/AIDS), malaria, and tuberculosis. A key element of this goal is the President's HIV/AIDS initiative, including mother-to-child transmission.
- *Emphasize education,* noting that literacy and learning are the foundation of democracy and development. The President is committed to increasing education assistance, notably through basic education and teacher training in Africa and in Latin America's Centers for Excellence in Teacher Training.
- *Aid agricultural development,* using new technologies to help improve crop yields in developing countries

Secretary of State Colin Powell said recently, "USAID is an important part of our country's foreign policy team. Its work is at the core of our engagement with the world. Over the long term, our foreign assistance programs are among our most powerful national security tools."

and help more than 300 million children still suffering from hunger and malnutrition. The Cutting Hunger in Africa Initiative, along with other activities highlighted at the World Summit for Sustainable Development, are cornerstones of this strategy.

- *Insist upon measurable results* to ensure that development assistance is actually making a difference in developing and transition countries, especially in the lives of the poor.

These themes and priorities play to USAID's strengths; they put the Agency in an excellent position to show how U.S. foreign assistance dollars can be used effectively in a wide range of development and humanitarian contexts. These themes are not only reflected in the current Agency Strategic Plan but will also be reemphasized in a new Plan that will be submitted to the President and the Congress in September 2003.

USAID is also committed to improving its management systems. The Agency is implementing the President's Management Agenda (PMA), a Federal wide program launched in September 2001 that focuses on improving performance in five management areas: *performance and budget integration, e-government, competitive sourcing, financial performance, and human capital*. This new agenda complements USAID's ongoing efforts to comply with the Government Performance and Results Act and other legislative requirements.

ORGANIZATION OF USAID

USAID is headed by an Administrator and Deputy Administrator, both of whom are appointed by the President and confirmed by the U.S. Senate. USAID is headquartered in Washington, D.C., and maintains field offices (usually referred to as missions) in more than 70 countries and programs in more than 100 countries. USAID works in close partnerships with private voluntary organizations (PVOs), universities, private businesses, and other U.S. Government agencies, as well as foreign governments and indigenous organizations. USAID has working relationships with approximately 3,500 American companies and more than 300 U.S.-based PVOs.

As noted in figure 1, USAID's structure includes ten bureaus, each headed by an Assistant Administrator who is also appointed by the President and confirmed by the U.S. Senate. The 10 bureaus include 3 functional bureaus, 4 geographic bureaus, and 3 pillar bureaus. The Agency's reorganization created 3 technical bureaus to mirror the strategic pillars of the Agency's programs (such as health) across geographic regions, and therefore are referred to as "pillar" bureaus.

The following functional bureaus provide support to the Agency as a whole:

- Bureau for Management (M)
- Bureau for Policy and Program Coordination (PPC)
- Bureau for Legislative and Public Affairs (LPA)

The three *pillar bureaus* support the delivery of technical services in the overseas missions and promote leading-edge research on new approaches and technologies. A major element of USAID strategic planning in FY 2002 entailed the reorganization of development programs into the following pillars:

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

In addition to the pillar bureaus, USAID established the Global Development Alliance (GDA), a pillar that operates with a Secretariat rather than a bureau. (Table 1.1 provides the goals of each USAID pillar, including the GDA.)

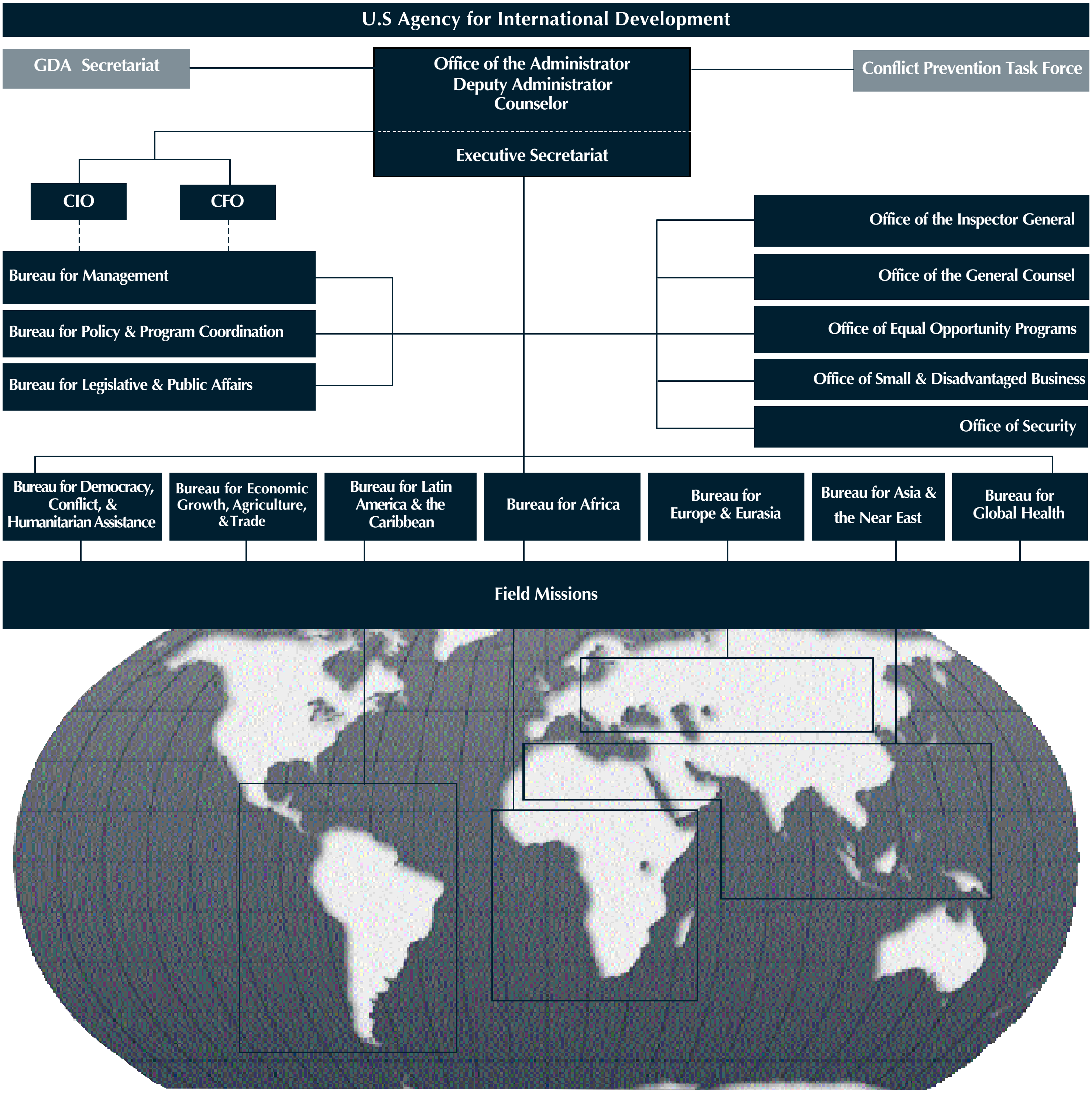
The following four *geographic bureaus* are responsible for the overall activities in countries where the Agency has programs:

- Bureau for Latin America and the Caribbean (LAC)
- Bureau for Africa (AFR)
- Bureau for Europe and Eurasia (E&E)
- Bureau for Asia and the Near East (ANE)

These bureaus have a lead role in managing bilateral relationships and coordinating with the U.S. State Department and other U.S. Government entities on USAID efforts in their respective regions. Regional bureaus select countries in which USAID staff will work and decide when country and regional strategies will be developed. They provide support and oversight to overseas missions and manage the review and approval process for strategies developed by the missions.

USAID field missions are grouped into various types of country organizations:

Part 1: Management Discussion and Analysis



Shaded area indicates temporary structure that will be absorbed into the agency within 12 months.

Figure 1: Organizational Structure of USAID

- In sustainable development countries, USAID provides an integrated package that includes clearly defined program objectives and performance targets.
- In limited presence countries, USAID assistance to nongovernmental sectors is necessary to facilitate the emergence of a civic society, help alleviate repression, meet basic humanitarian needs, enhance food security, or influence a problem with regional or global implications.
- In transitional countries; or those that have recently experienced a national crisis, a significant political transition, or a natural disaster; and/or those where timely assistance is needed to reinforce institutions and national order, USAID missions administer USAID programs and services to multiple countries or provide regional services to other missions.
- Field offices of the Inspector General carry out audits and investigations. These offices include Regional Inspector General for Audit Offices and Investigative Field Offices.

TRANSFORMATION OF USAID

USAID's Administrator has made transformation of the Agency into a premier, high-performance international development and humanitarian assistance organization one of his highest priorities. In his confirmation testimony before the U.S. Senate in 2001, he called for fundamental reforms and overhaul of the Agency's management systems. In response to this charge, the Agency is implementing a comprehensive modernization plan to improve customer service and overall performance.

The Business Transformation Plan directly addresses the President's Management Agenda and the Administrator's vision for the Agency. It is structured around four interrelated initiatives:

- Strategic Management of Human Capital includes reforms to improve USAID's human resources management capacities and directly addresses the *PMA Human Capital* requirements. It also addresses the *PMA Competitive Sourcing* requirements by requiring that future staffing decisions consider strategic sourcing alternatives prior to initiating recruitment actions.
- Business Systems Modernization (BSM) includes reforms to USAID financial management, acquisition and assistance, and information technology (IT) management capabilities and directly addresses the objectives of the *PMA e–Government* and *PMA Financial Performance* initiatives. BSM also addresses *PMA Competitive Sourcing* objectives in the context of considering sourcing options for business systems investments.
- Strategic Management of Intellectual Capital includes plans to improve USAID knowledge management and sharing of lessons learned and collaboration, while enhancing the Agency's position as the world's leader in the technical competencies of foreign assistance. This initiative directly addresses the objectives for knowledge management and organizational learning in the *PMA Human Capital* initiative, as well as *PMA e-Government* objectives for technology-enabled business transformation.
- Budget and Performance Integration includes reforms in the USAID strategic planning, budgeting, and decision-making process to become performance-driven to the fullest extent possible within the existing political environment. This initiative directly addresses the requirements for the *PMA Budget and Performance Integration* initiative.

Transformation efforts during FY 2002 focused on building the capacity to drive more fundamental changes. Some initial accomplishments include:

- **Global Development Alliance.** The Global Development Alliance fosters cooperation between USAID and new partners and promotes the sharing of resources and responsibility to achieve greater impact than any single organization could accomplish on its own.
- **Comprehensive Organizational Restructuring.** The Administrator's first management reform was a comprehensive restructuring of work and the organization to strengthen program management capacity in the field, while centralizing technical leadership in three Washington-based pillar bureaus corresponding to USAID program priorities. The restructuring was designed to produce a significant transfer of resources and responsibilities from headquarters to the field, while improving the focus of sectoral work, reducing overlap and redundancy, and promoting improved research and knowledge sharing within and across sectors.
- **Establishment of a Business Transformation Executive**

Committee (BTEC). This "best practice" governance structure was established to provide Agencywide leadership to the business transformation agenda and to ensure that initiatives and investments are focused on USAID's highest-priority needs. The BTEC is chaired by the Deputy Administrator and comprises senior executives from all bureaus and major offices. The BTEC charter has incorporated IT investment duties that were previously the responsibility of the Agency's Capital Investment Review Board.

- **BTEC Quick Hits.** In its first months of activity, the BTEC initiated numerous short-term initiatives ("quick hits") that were designed to address key customer issues identified in the Administrator's 2001 employee survey and to make progress toward the President's Management Agenda. USAID achieved the following quick hits:
  - ➢ An automated personnel recruitment tool has reduced the average transaction cycle time from more than 120 days to 30 days to select a Civil Service candidate.
  - ➢ A successful pilot of the "Ariba"® e-procurement tool demonstrated significant potential for improvements in executing small purchases.
  - ➢ A web-based worldwide staffing report system has been developed to provide a comprehensive picture of the Agency's workforce. The system is being tested in field missions.
  - ➢ Customer service standards and a customer relationship management tool are facilitating improvements in management services.
  - ➢ The formats used for indefinite quantity contracts were reduced from 15 to 2, streamlining the process for USAID staff and contractors.
- **Establishment of a Program Management Office (PMO).** This "best practice" structure was created to establish project management practices, processes, and tools to manage transformation initiatives. The PMO also drives accountability for results and provides an effective and repeatable project implementation capability. When it is fully operational, the PMO will provide the organizational structure, methodology, processes, tools, people, communications, change management, and training necessary for the business transformation initiatives to be efficiently and effectively carried out.
- **Overseas Business Systems Modernization Assessment.** USAID completed a study that examined financial and procurement functions overseas to determine the best approach for deploying the financial system to field missions and for acquiring a new worldwide acquisition and assistance system.

PERFORMANCE MONITORING IN USAID

USAID implemented a comprehensive program performance management system in 2000. During the past two years, the Agency has trained nearly 1,300 employees through week-long courses on the Agency's performance management policies and procedures. As a result, USAID has seen substantial improvements in our field missions' capability to manage and report on program performance. Since most training occurred after the results reported here were accomplished, improvements in performance management have already been started.

Because of the wide variety of circumstances in the countries where USAID operates, the principal tool for performance management is the individual operating unit strategic plan. Country missions and Washington offices (all of which are termed "operating units") use these plans—which are reviewed and cleared by USAID/Washington—to lay out their strategic objectives. A strategic objective (SO) is the highest-level result that a USAID operating unit and its partners can materially affect, given the time and resources available. A performance management plan, which is a mandatory tool for implementing the operating unit strategic plan, lays out specific annual and long-term performance targets.

Whether a specific strategic objective "exceeds," "meets," or "fails to meet" its target is the central performance measure that missions address in their annual reports to Washington. At least nine months ahead of time, missions formally select the targets that will be used to measure performance and then report on whether these targets have been exceeded, met, or not met. Targets may be similar across missions in some sectors such as population, education, and HIV/AIDS, or they may be very different in sectors such as democracy and governance. Nonetheless, each mission or operating unit sets independently verifiable—and auditable—targets and then reports against them. While full documentation of the targets and accomplishments is not submitted to Washington, this information is required to be maintained at the mission level where it is available for review. Beginning with data submitted for FY 2002, a sample of SOs will be selected to submit full documentation for Washington review.

For the Agency as a whole, USAID has tentatively established the following target:

85% of strategic objectives will have met or exceeded their targets for the year, with no more than 10% having failed to meet targets. The additional 5% are strategic objectives that are not required to report because they are less than one year old.

Note that these targets include both low and high expectations, implying that USAID expects some targets to be met or exceeded and others not met—as in such difficult operating environments as Zimbabwe or Belarus. The numbers presented against this USAID standard of "exceeded," "met," and "not met" are based on an analysis of the performance data at the operating unit level and still need fine-tuning. Illustrative examples of programs that met their targets in all USAID sectors are provided in this document. This section also provides examples of programs that did not meet targets. These are explored more fully in the Performance Report section.

Agencywide, of the 444 strategic objectives that were in place during FY 2001, 41 (or 9%) did not meet their targets. Fifteen strategic objectives (or 3%) were not assessed, because USAID was introducing a new data quality standard, and not all had the opportunity to conduct data quality assessments. This will be corrected in the FY 2003 Performance and Accountability Report (PAR). Overall, 88% of the Agency's strategic objectives met or exceeded FY 2001 targets.

In some sectors, there is sufficient comparability across country programs that common indicators can be used. This is particularly true in population, health, HIV/AIDS, microenterprise, and basic education programs. In these sectors, USAID missions report against specific, common indicators so the Agency can "roll up" the data into an overall Agency presentation.

Finally, in all sectors, USAID has "context" indicators, which are the high-level indicators that track country progress, but which USAID is unable to change using its resources alone. For example, it is important to track changes in per capita Gross Domestic Product (GDP) in countries where USAID has economic growth programs, but USAID's inputs alone are insufficient to change a country's GDP. Therefore, context indicators help tell the story of how the environment in which we work is changing over time. (Context indicators are presented in the Program Performance section).

To use performance information for management and reporting, USAID has established systems to ensure that quality assessments are done on data used for management decisionmaking. USAID provides explicit instructions for these data quality assessments (DQAs), as do USAID training courses. [The policy is contained in the Automated Directives System (chapters 200–203), available on the external USAID website at: http://www.usaid.gov/pubs/ads/200. Additional information on performance management is provided in the Performance section.]

The data presented throughout this Report describe performance by strategic objectives at the operating unit level, aligned with the high-level USAID pillar objectives listed in table 1.1. (An operating unit is defined as a section of USAID that has responsibility for obligating and managing funds. Operating units include all overseas missions and many offices in USAID/Washington.) In most cases, these strategic objective results were accomplished using prior-year funds, because these funds are generally made available to operating units in the third and fourth quarters of the fiscal year as a result of Congressional delays in enacting appropriations and ensuring that all country allocations reflect Congressional directives and earmarks. Cumulatively, these requirements cause the delay in making current year funds available for program use. For this reason, program activities typically do not begin to achieve results for some months (i.e., into the next fiscal year); therefore, it is essentially impossible to attribute current fiscal year results to the same fiscal year's funding.

For the most part, the operating unit results described in this report capture performance as of September 30, 2001, while results for the USAID Management goal are for performance through September 30, 2002. This is permitted by OMB Circular A-11, because the data will be updated in subsequent PARs when the information becomes available. Data presented in this report identify the year it originated.

Part 1: Management Discussion and Analysis

As the economies of transitional and developing nations become more open and market-oriented, they expand, which has direct benefits for the United States. In fact, countries that have graduated from USAID assistance import more American manufactured goods and services than developed nations do.

A three-year comparison of Agency program performance is provided in the Performance Report section. In the past, the Agency has asked missions to report on whether programs have met, exceeded, or failed to meet *expectations*. The data for FY 2000 in the performance tables report "expectations," rather than "targets," and are therefore not strictly comparable with data for FY 2001 and subsequent years. Consequently, the Management Discussion and Analysis reports on SO performance only for FY 2001.

PERFORMANCE GOALS AND OBJECTIVES

During FY 2002, the Agency pursued its mission through four pillars (Economic Growth, Agriculture, and Trade; Global Health; Democracy, Conflict Prevention, and Humanitarian Assistance; and the Global Development Alliance). In addition, there was one management goal. While this differs somewhat from the approach outlined in the FY 2000 Agency Strategic Plan (because of the Agency's reorganization), USAID explained these changes in the FY 2001 Annual Performance Report. USAID will finalize these changes in its FY 2004 Strategic Plan.

Table 1.1 presents the FY 2002 goals that are used for planning, programming, and reporting.

HIGHLIGHTS OF PROGRAM PERFORMANCE AND RESULTS

Overview

USAID pursues multiple strategic objectives in more than 100 countries around the world. Individual country programs are tailored to local conditions. This wide array of activities under way worldwide at any given time, taken together, constitute Agency performance. This section summarizes the Agency's performance with respect to the strategic objectives noted in table 1. In addition, a summary of "high profile" FY 2002 activities includes the following:

- The United States led the international community in providing assistance to Afghanistan, the largest recipient of U.S. humanitarian assistance before September 11, 2001. The United States provided $588 million to help the Afghans; USAID managed more than $350 million of this assistance. USAID responded to the humanitarian crisis by providing food, emergency supplies, health care, communications, and transport. Between October 2001 and December 2002, USAID helped rebuild 4,000 kilometers of rural roadways, 31 bridges, 850 kilometers of irrigation tunnels and canals and reconditioned 16 government ministry buildings. One hundred forty-two schools, daycare centers and vocational education facilities have been rebuilt and. USAID has trained 1,300 teachers who will return to village schools to train local teachers. The 7,000 tons of seed the Agency provided last spring resulted in a 82% increase in wheat production this summer.
- The global HIV/AIDS epidemic is causing widespread suffering in the developing world, where it is poised to profoundly undermine social and economic advances in many countries. In much of Africa, the medical, social, and economic consequences of the epidemic are already severe, and many areas of Asia, Eastern Europe, and the Caribbean are at risk for equally severe epidemics. The past two years have seen a dramatic escalation in USAID's involvement in addressing this urgent global issue. In FY 2002, USAID's HIV/AIDS funding increased to $510 million. A new Office of HIV/AIDS was created within the Bureau of Global Health. USAID is now providing assistance to more than 50 countries—by strengthening prevention, treatment, and surveillance programs and by providing vital services to orphans and other children affected by AIDS. USAID has also contributed critical technical and management expertise to the formation of the new Global Fund for AIDS, Tuberculosis, and Malaria, which has already attracted more resources for combating AIDS worldwide.
- The food crisis in southern Africa is severe, affecting an estimated 14.4

Table 1.1: FY 2002 USAID Programs, Goals, and Strategic Objectives

Agency Pillars	FY 2002 Goals and Strategic Objectives
Economic Growth, Agriculture, and Trade (EGAT)	*Broad-based economic growth and agricultural development encouraged:* 1. Expand and strengthen critical private markets 2. Enhance agricultural development and encourage food security 3. Expand and make more equitable access to economic opportunity for the rural and urban poor *Basic education improved:* 4. Quality education for underserved populations expanded, particularly for girls and women *Global environment protected:* 5. World's environment protected by emphasizing policies and practices that ensure environmentally sound and efficient energy use, sustainable urbanization, conservation of biological diversity, sustainable management of natural resources, and reducing the threat of global climate change
Global Health (GH)	*World population stabilized and human health protected:* 1. Unintended and mistimed pregnancies reduced 2. Infant and child health and nutrition improved and infant and child mortality reduced 3. Deaths and adverse health outcomes to women as a result of childbirth reduced 4. HIV transmissions and impact of HIV/AIDS pandemic in developing countries reduced 5. The threat of infectious diseases of major public health importance reduced
Democracy, Conflict and Humanitarian Assistance (DCHA)	*Democracy and good governance strengthened:* 1. Rule of law and respect for human rights of women, as well as men, strengthened 2. Credible and competitive political processes encouraged 3. Development of politically active civil society promoted 4. More transparent and accountable government institutions encouraged 5. Conflicts mitigated *Lives saved, suffering associated with natural or man-made disasters reduced, and conditions necessary for political and/or economic development reestablished:* 6. Humanitarian relief provided
Global Development Alliance (GDA)	*Foster increased cooperation between USAID and traditional and new partners, and promote the sharing of resources and responsibility to achieve greater impact than any single organization could accomplish on its own*
Management (M)	*USAID's development goals achieved in the most efficient and effective manner:* 1. Accurate program performance and financial information reflected in Agency decisions 2. USAID staff skills, Agency goals, core values, and organizational structures better aligned to achieve results efficiently 3. Agency goals and objectives served by well planned and managed acquisition and assistance 4. Agency goals and objectives supported by better information management and technology 5. Provide effective logistical and administrative services

million people in six countries: Lesotho, Malawi, Mozambique, Swaziland, Zambia, and Zimbabwe. USAID has monitored the food shortage in southern Africa since December 2001 and began providing food to the region in February 2002. The United States has delivered or pledged more than 499,000 metric tons of food aid since the beginning of 2002. At a total value of more than $266 million, the U.S. Government is the largest donor to the World Food Program's operations in southern Africa. USAID has also provided more than $10 million in nonfood programs under way in Zimbabwe, Malawi, Zambia, and Lesotho. The United States has also worked to avert a worsening situation in southern Africa by stimulating commercial imports and engaging governments to take appropriate policy actions against the food crisis.

As noted above, the following results are presented by strategic objectives at the operating unit level, aligned with USAID pillar objectives. For the most part, operating unit results capture performance as of September 30, 2001, while performance results for the USAID Management objective are as of September 30, 2002. (The Program Performance section of the PAR provides additional information.)

Economic Growth, Agriculture, and Trade (EGAT)

The most effective means of bringing poor, disadvantaged, and marginalized groups into the mainstream of an economy is broad-based economic growth. In developing countries, economic growth reduces poverty while increasing food security and standards of living, including better health and education. For transitional countries, broad-based economic growth offers the best chance to enhance political stability and maintain social and economic reforms. As the economies of transitional and developing nations become more open and market-oriented, they expand, which has direct benefits for the United States. In fact, countries that have graduated from USAID assistance import more American manufactured goods and services than developed nations do.

USAID missions and Washington offices pursue specific operating unit strategic objectives (SOs) aligned with the Agency-level goal and objectives. The Agency has 279 EGAT strategic objectives carried out in 90 operating units around the world.

EGAT Objective 1: Expand and strengthen critical private markets

USAID works at the government level to influence policy and at the local level with direct interventions to accomplish this objective. Of the 90 USAID operating units promoting economic growth, agriculture, and trade, more than 45% have programs with a primary focus on encouraging private market growth. Key SO approaches to accomplish private market growth include:

- Privatization of state-owned enterprises (particularly in the energy sector in Central America and Moldova)
- Technical assistance and training for small and medium entrepreneurs and academics in current business practices and accounting methods
- Policy analysis and reform in the areas of free trade, economic forecasting, business regulation, banking, and taxes
- Provision of credit to entrepreneurs

For EGAT Objective 1, operating units reported on 62 SOs: 73% met or exceeded their targets for FY 2001. This is less than the 85% Agency-level performance target and will be addressed in FY 2003 by improving performance management at the operating unit level.

Examples of targets that were met

Some of the most significant achievements in 2001 were in Jordan. The U.S.-Jordan Free Trade Agreement (FTA) that will form the basis for an expanding economic partnership was successfully negotiated; USAID participation was critical in the creation of the Aqaba Special Economic Zone (ASEZ), which has attracted more than $630 million in registered investments (vs. a target of $100 million). In addition, USAID assistance to the Jordan Investment Board helped generate $1.25 billion in domestic and foreign investment (vs. a target of $1.5 billion), and privatized state-owned assets totaled $936 million (vs. a target of $900 million).

Developing a supportive environment for Small and Medium Enterprises (SMEs) is a cornerstone of USAID's assistance strategy. Bulgaria enjoyed particular success in these firms' exports: a 6.2% annual increase in exports in general in 2001 and a 13.4% increase in exports to the European Union (EU). To help develop a positive economic policy environment in South Africa, USAID supported the completion of 75 high-quality policy studies (13 above a target of 62) for government departments; 36 (target 30) high-quality economic studies were produced by local think tanks for government; and 806 (target 650) full-time students were enrolled in economics courses supported by USAID.

Since its enactment in 2000, the Africa Growth and Opportunity Act (AGOA) has helped to improve the economic landscape of sub-Saharan Africa. In part because of this investment, U.S. imports from sub-Saharan Africa have increased 61.5% over the past two years. In 2001, the United States imported $8.2 billion of duty-free goods under the AGOA, and U.S. exports to sub-Saharan Africa reached record levels in 2001, growing by nearly $7 billion, a 17% increase over 2000. This increase in U.S. exports to the region contrasted with a fall of 6.3% in U.S. exports worldwide. In fact, sub-Saharan African countries where this program was active outperformed virtually all other regions in Africa.

Example of targets that were not met

USAID's program in Tajikistan to encourage small and medium enterprises was ineffective because of security restrictions on travel and political and social instability in Central Asia. However, increased U.S. military presence in Tajikistan and the elimination of much of the threat to the south have already increased stability there, and USAID will be able to deliver a more comprehensive portfolio of economic reforms in 2002. These will include preparations for eventual World Trade Organization (WTO) membership.

EGAT Objective 2: Enhance agricultural development and encourage food security

USAID agricultural programs promote increased production and diversification of agricultural goods for local consumption and export, as well as strengthen public and private agricultural institutions. USAID also supported policy reform to provide incentives for farmers and agricultural entrepreneurs; promoted research for, and adoption of, improved agricultural practices and technologies; and supported programs to increase producers' access to markets and market information. Typical approaches included:

- Training and technical assistance (including extension services)
- Access to credit programs
- Farm-to-market linkages (including road rehabilitation and market education)
- Agricultural policy reform (e.g., food security, land privatization)
- Improving agricultural practices (introducing improved crop varieties, irrigation, and on-farm water management)
- Introduction of alternative crops (in Colombia, where USAID is involved in the introduction of commercially viable replacement crops for illegal coca)

For EGAT Objective 2, 31 operating units reported on 33 SOs: 64% met or exceeded their targets for FY 2001. This is less than the 85% Agency-level performance target. In 2001, USAID implemented a new performance targeting system that agricultural programs were not equipped to meet. Therefore, the number of "not met" assessments increased from 5% to 30% in one year. This will be addressed in FY 2003 by improving performance management at the operating unit level.

Examples of targets that were met

In East Timor, a specialty coffee project resulted in a 10% production increase over the previous season. The entire crop was sold to markets in Japan, Europe, Australia, and the United States (e.g., Starbucks®). This occurred despite the glut in the coffee market last year, labor unrest, land tenure issues, and infrastructure and transportation problems. In Uganda, farmers reached through USAID-supported programs witnessed two-to threefold increases in yields of staple food crops such as maize and beans; a tenfold increase in cassava production; and a simultaneous 30% decline in the cost of maize production. In Madagascar, rice yields among project farmers increased by as much as 300% after only two years. Similarly in Mozambique, measures of household income show increases of 80%, and participant farmers' yields were 52% higher than the yields of nonparticipant farmers. Because of USAID's support for land tenure reform, Kyrgyzstan has become the first country in the former Soviet Union to permit the sale and purchase of agricultural land.

Example of targets that were not met

In Colombia, USAID's program to eliminate illegal crops and promote alternative development strategies missed targets for crop eradication because of security issues and the low institutional capacity of key Government of Colombia entities. While the number of families that benefited directly from medium-term productive and resource management activities under the poppy reduction programs in FY 2001 exceeded expectations, the number of hectares of illicit crops eliminated and hectares of legal alternative crops supported by the program have fallen short of planned levels.

Several adjustments have been made to the program implementation strategy. Hectares of poppy and coca production eliminated will no longer be used as a measure of program success (although they will be tracked), because there is a general recognition that alternative development programs do not *directly eradicate* poppy and coca production, but rather *help to sustain* the eradication efforts of other U.S. and Colombian agencies. The program will limit alternative development investments in remote, scarcely populated areas with few or no traditional communities and where prospects of alternative income development are very limited, and instead concentrate its efforts in areas west of the Cordillera Oriental (the eastern range of the Andes), where better security conditions; increased market access; and stronger, more cohesive civil organizations prevail. Preliminary FY 2002 data suggest that these strategic adjustments have had a positive impact on program implementation.

EGAT Objective 3: Expand and make more equitable access to economic opportunity for the rural and urban poor

Microenterprise provides poor people with economic opportunity. Worldwide, millions of poor households run microenterprises to earn their living. During times of crisis and economic distress, additional households also use informal business activities to generate needed income. In addition, many farming households use microenterprises to balance income flow and reduce risk. USAID has three major approaches to improving urban and rural incomes and economic opportunity through support for microenterprise:

1) Providing financial and business training and development services for microentrepreneurs

2) Supporting legal and regulatory reform to improve the small-business environment

3) Providing management and financial support to financial institutions to expand their willingness and capacity to make small loans

In FY 2001, USAID contributed $153 million to microenterprise development, a slight drop from FY 2000 (see table 1.2). This was accompanied by a substantial increase in the number of active loans, from 2.2 to 3.4 million, indicating a decrease in the average loan amount per recipient. There was no change in the number of loans made to women or the repayment rate, which was extraordinarily high at 93.3%.

For EGAT Objective 3, operating units reported on 37 SOs: 81% met or exceeded their targets for FY 2001. This is less than the 85% Agency-level performance target and will be addressed in FY 2003 by improving performance management at the operating unit level.

Table 1.2: Annual Microenterprise Results

Calendar Year	1997	1998	1999	2000	2001
Microenterprise funding (millions US$)	158.1	136.2	153.5	164.4	153.6
Active number of loans (000)	1,447	3,559	2,020	2,164	3,400
Percentage of loans made to women	67	84	69	70	71
Repayment rate (%)	94.8	95.3	95.2	93.7	93.3

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

Examples of targets that were met

During the past year, USAID efforts in Uganda have exceeded planned targets through a microfinance program that provided technical assistance and training to more than 60 microfinance clients. From a base of fewer than 10,000 clients, USAID's program now reaches 350,000 mainly female micro- and small-scale entrepreneurs. In Guatemala, USAID and its partners have assisted 55,489 small farmers and 49,889 microentrepreneurs, exceeding the FY 2001 target number of beneficiaries by more than 120%. More than 30,000 new clients were added in a single year!

Examples of targets that were not met

In Morocco, an investment promotion program did not meet a target to perform a review of commercial laws and regulations primarily because of the reluctance of the Ministry of Justice to undertake a comprehensive review of commercial laws and regulations. In Eritrea, a program to revitalize rural economies did not perform to expectations because of critical staff shortages and unanticipated delays in military demobilization. Problems with the program implementation plan have been identified and corrected, and new staff is being recruited.

EGAT Objective 4: Quality education for underserved populations expanded, particularly for girls and women

Basic education activities serve to improve (1) preprimary, primary, and secondary education systems and comprehensive school-based and out-of-school programs; (2) adult literacy programs; and (3) teacher training at any of these levels. Investments in expanded and improved basic education have been linked to faster and more equitable economic growth, progress in poverty reduction, lower birth rates, and stronger support for democracy and civil liberties. Basic education of girls and women contributes to better family health and enhanced status of women. USAID's basic education programs assist and encourage countries to improve their educational systems, policies, and institutions; to adopt better educational practices in the classroom; and to give families and communities a stronger role in educational decisionmaking. In the many developing countries where girls face barriers to education, we devote special efforts to reducing these barriers, thereby promoting educational and future vocational opportunities for girls.

For EGAT Objective 4, operating units reported on 43 SOs: 77% met or exceeded their targets in FY 2001. This is less than the 85% Agency-level performance target and will be addressed in FY 2003 by improving performance management at the operating unit level.

Examples of targets that were met

In Ethiopia, USAID efforts at the community level to help girls stay in and succeed at school have raised girls' participation in the two USAID focus regions to 73.9% and 48.1%, respectively, in the 2000–2001 school year, up from 38% and 17%, respectively, in the baseline 1994–1995 school year. Both these levels exceed the national average of 47%. Likewise in Guinea, the primary

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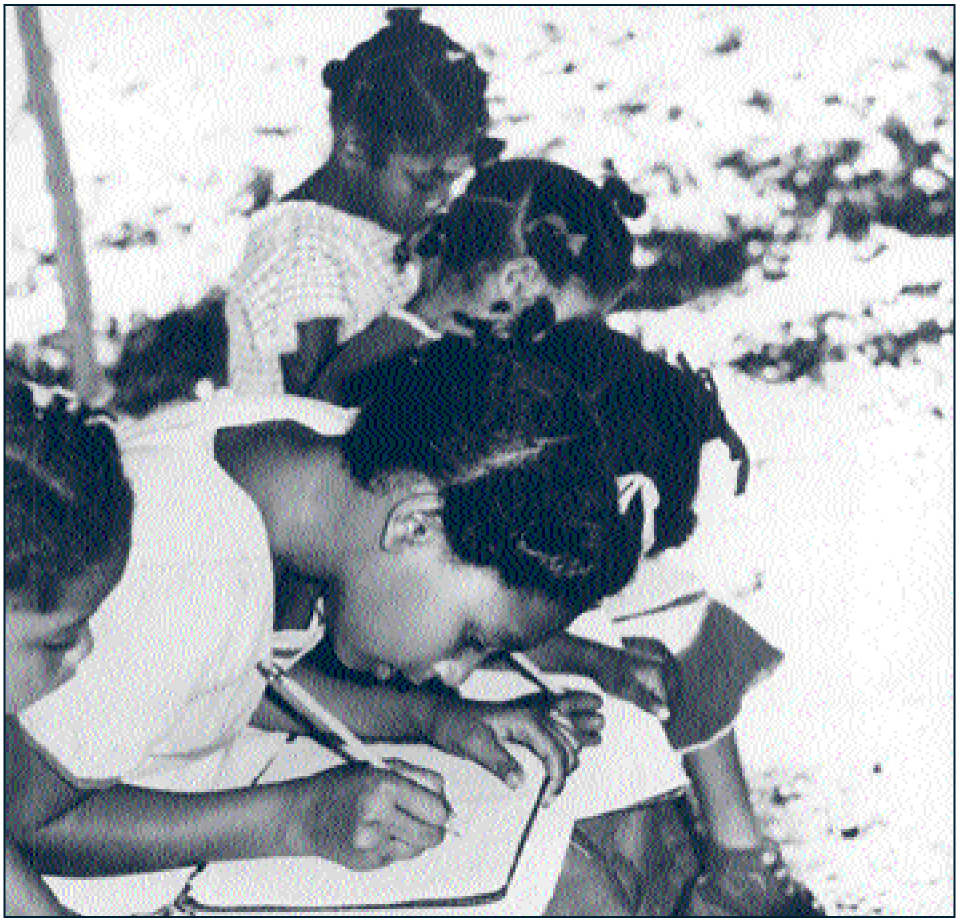

school gross enrollment rate (GER) reached 61.0% (up from 31.9% in 1991), while girls' GER grew from 19.7% to 50.0% during the same period. In FY 2001 alone, the GER indicator increased by 4.3 percentage points, with a 5.7% increase for girls. Similar on-target results were reported for Zambia, where the number of children enrolled in USAID-supported basic education institutions dramatically increased from 12,565 pupils in 63 basic education sites in 2000 to 37,140 pupils enrolled in 256 basic education sites in 2001.

Example of targets that were not met

In Mali, USAID community school programs fell short of targets. In 2001, the gross enrollment rate for community schools was below the national average, and the access rate appears to be declining, with girls' access and enrollment lower than in public schools. USAID will commission an independent evaluation of USAID-sponsored community schools in 2003 to determine the reasons for declining enrollment and poorer participation of girls. Working with its partners, USAID will use the evaluation findings to improve quality.

EGAT Objective 5: the global environment protected

Environmental problems increasingly threaten the economic and political interests of the United States and the world at large. Environmental degradation endangers human health, undermines long-term economic growth, and threatens ecological systems essential to sustainable development. USAID programs promote economic growth, global health, technology transfer, and conflict prevention and help people manage their activities in ways that enable the natural environment to continue to produce—now and in the future—the goods and services necessary for survival.

USAID is utilizing a variety of approaches across all regional areas, including:

- Sustainable water management
- Improved natural resource and watershed management
- Engaging private investors in conservation efforts; the privatization of federal, state, and municipal power utilities; and the creation of environmental regulatory agencies
- Conservation and sustainable development of forest resources
- Reduction of greenhouse gas emissions
- Increased areas under approved site management plans and protected area management

For EGAT Objective 5, operating units reported on 53 SOs: 87% met or exceeded their targets in FY 2001. This is more than the 85% Agency-level performance target.

Examples of targets that were met

During FY 2001, USAID helped India reduce CO_2 emissions by 4.4 million tons, exceeding the target of 4.19 million tons. In South Africa, USAID assisted municipal governments' delivery of energy and other services as it exceeded its targets for services delivered to historically disadvantaged households. Almost 900,000 households benefited from programs supported by USAID, and more than $180 million was leveraged to support improved service delivery.

In addition to the number of programs meeting strategic objective targets, USAID tracks the increasing numbers of hectares under improved environmental management. Effective management occurs when habitat quality is maintained or improved and institutional ability to monitor and respond to threats is documented. Table 1.3 demonstrates the dramatic changes occurring in conservation and natural resource management around the world. USAID is focusing on the most biologically diverse and endangered parts of the world and the rapidly increasing amount of land under improved management. USAID plans to continue to expand its programs and work to enable countries to better manage those lands already partially protected.

Example of targets that were not met

The Parks in Peril (PiP) program, which aims to ensure the protection of up to 37 critically threatened LAC national parks and reserves of global significance, did not meet planned targets during the past year. Causes included slow start-ups at some sites and changes in some PiP implementing partners. USAID has subsequently rectified these performance issues and this key regional program is now on track and meeting targets.

Global Health (GH) Pillar

Despite substantial improvements in global health over the past decades, remaining challenges are significant

Table 1.3: Performance Indicator: Hectares under Improved Management

Fiscal Year	Planned	Actual
2001	54,705,000	62,540,000
2002	66,457,474	Under tabulation
2003	Under tabulation	

Sources: USAID program and operating unit-level data provided by institutional contractors; USAID, Global Center for the Environment.
Indicator: Area of habitat (terrestrial and aquatic) under improved management.
Unit of Measure: Hectare (ha).
Data Quality: Contractors and partners are now routinely using standardized methods to "score" hectares under improved management regimes, but some subjectivity is still a factor. Further refinements in scoring, more site visits by USAID staff, and more rigorous adherence to methods should further reduce variance.

and, in some cases, growing. At the end of 2002, there were 42 million people living with HIV/AIDS worldwide, 3.2 million of whom are children. To date, the epidemic has hit the African continent hardest, but India, Russia, China, and other countries in Asia and Latin America are facing rising infection rates. The World Health Organization (WHO) estimates that more than 500,000 women die each year from childbirth and pregnancy-related causes. Women in developing nations are 40 times more likely to die in childbirth than are women in developed countries. Poor maternal health and inadequate maternity care contribute to 3.9 million stillbirths, 3 million neonatal deaths, and 16 million low-birth-weight babies annually.

The infectious childhood diseases that remain common in poor countries—respiratory and diarrheal diseases, malaria, and measles and other vaccine-preventable diseases—still make up major shares of the global burden of diseases. More than 12 million children under five still die each year in the developing world, most of them from preventable causes. More than half of all child deaths are thought to be associated with malnutrition.

The current state of population, health, and nutrition worldwide affects the interests of American citizens, as well as the people of developing countries. In a world of increased travel, immigration, and commerce, diseases do not respect national borders, making all of us vulnerable. Moreover, poor health status undermines productivity and social stability. Improving the health of populations in developing countries, as well as their own capacity to provide public health services, contributes substantially to a more prosperous and secure international environment.

USAID has five Agency-level objectives that support the global health goal. In addition, the work carried out by USAID's other pillar bureaus also has important impacts on health status in developing countries. Particularly relevant are (1) the promotion of education, agriculture, livelihoods, and environmental protection under the EGAT pillar and (2) the promotion of democratic institutions, conflict mitigation, and a wide range of humanitarian interventions under DCHA.

GH Objective 1: Reduce unintended and mistimed pregnancies

High-quality reproductive health care and access to voluntary contraception are key factors in improving the health of mothers, infants, and families.

USAID has been a world leader in supporting voluntary family planning and health programs in developing countries for more than 35 years. By encouraging couples to have only the number of children they want and helping them space their children two to three years apart, maternal and infant deaths can be greatly reduced. Scores of surveys show that there is still a very large unmet need for reproductive health care and contraceptives in the developing world.

In FY 2002, USAID supported voluntary family planning programs in more than 60 countries and regional programs. USAID's family planning and reproductive health programs utilize a range of evidence-based approaches:

- Improving the delivery and quality of family planning services
- Integrating family planning and maternal child health care services
- Disseminating family planning information
- Ensuring and increasing the supply of contraceptives

At the operating unit level (primarily USAID missions), the most common indicators used to assess work done under this SO are total fertility rate (TFR), contraceptive prevalence rate (CPR), and delivery of family planning commodities and services in relation to the population in need. (See the Performance Report section for more information about trends in these indicators.)

For GH Objective 1, operating units reported on 16 SOs: 88% met or exceeded their targets in FY 2001. This is more than the 85% Agency-level performance target.

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Example of targets that were met

In Ecuador, with USAID family planning support, the total fertility rate decreased from 6.2 in 1970 to 3.3 in 1999. After nearly three decades, USAID's family planning program in Ecuador was phased out in 2001. The final year of the program focused on consolidating sustainability efforts for the two largest family planning nongovernmental organizations (NGOs) in the country. Both NGOs improved their marketing of services such as medical care, as well as laboratory and diagnostic services with greater cost recovery potential. In fact, the two NGOs' cost recovery targets were met or exceeded, despite the severe financial conditions of the country, with an average of more than 90%. This suggests that USAID has created a sustainable program that will continue to operate in the future.

Example of target that was not met

In January 2002, a population-based survey established that targets for increasing contraceptive supply in India were not met. In the past year, the sale of condoms in rural Uttar Pradesh (U.P.) and Uttaranchal increased by 24%, from 62 million in 2000 to nearly 77 million in 2001. However, for the more effective method, contraceptive pills, sales registered a decrease from 3.35 million cycles in 2000 to nearly 3 million cycles in 2001, because of a decline in promotional efforts. In response, USAID-funded activities will intensify promotional efforts.

Global Health Objective 2: Improve infant and child health and nutrition and reduce infant and child mortality

USAID has been a global leader in child survival since the 1980s. Using proven tools—many of which, like oral rehydration therapy and Vitamin A supplementation, were developed with USAID support—child survival programs have demonstrated the ability to save children's lives even in the poorest countries. As a result, mortality rates for children under five in developing countries (excluding China) declined from approximately 105 per 1,000 live births in 1985 to approximately 70 per 1,000 in 2000. This means that several million children are saved every year from common childhood diseases and malnutrition. USAID has played a major role in this progress, in collaboration with host countries, other donors, and the partners that USAID funds, such as UNICEF and private voluntary organizations.

Improving child health is a complex goal and requires many kinds of interventions. In countries with very high child mortality rates (such as Afghanistan, much of sub-Saharan Africa, and Haiti), child health programs face formidable implementation challenges—including combinations of extreme poverty; war

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and civil unrest; lack of trained personnel, vital drugs, and other medical supplies; and uneven commitment from local authorities.

During FY 2002, USAID implemented child health and nutrition programs through more than 60 operating units. Programs use a combination of the following approaches, based on local needs:

- Increasing immunization coverage
- Supporting disease control and surveillance efforts of regional and international organizations
- Expanding the provision of micronutrients
- Promoting the importance of exclusive breast-feeding and appropriate child-feeding practices
- Promoting the adoption of the Integrated Management of Childhood Illnesses (IMCI) strategy of child health care
- Using Public Law (P.L.) 480, Title II development resources to supplement the diet of young children and pregnant and lactating mothers. This is done in cooperation with the U.S. Department of Agriculture.

For GH Objective 2, operating units reported on 16 SOs: 100% met or exceeded their targets in FY 2001. These results are likely a reflection of the Agency's vast experience in planning and implementing child survival programs.

Examples of targets that were met

A final evaluation of USAID/India's five-year maternal-child health program (1997–2001) shows that targets were exceeded for all indicators. The USAID-funded Integrated Child Development Services (being implemented in eight states in India) is the world's largest child survival program. During this five-year program, immunization rates for children increased from 18% to 57%; timely complementary feeding rates for infants improved from 46% to 67%; and the supplementary feeding coverage of children under two years expanded from 40% to 64%. The programs reached approximately 7.3 million poor women and children in more than 100,800 villages.

USAID/Eritrea's child survival program implemented an integrated management of childhood illness program. In a difficult programming environment, results greatly exceeded expectations in 2001, with 15 health facilities offering IMCI services, compared with the target of two facilities. In 2001, national and subnational immunization days were well implemented in cooperation with the World Health Organization. Donor coordination was good, which facilitated Eritrea's successful application for funding from the Global Accelerated Vaccine Initiative (GAVI) to introduce hepatitis B vaccine. In addition, USAID supported the distribution of more than 250,000 Vitamin A capsules to Eritrean children in June 2001 and more than 380,000 capsules in December 2001.

Global Health Objective 3: Reduce deaths and adverse health outcomes to women as a result of pregnancy and childbirth

Improving maternal health is essential to improving the health of children and families. In developing countries, pregnancies and childbirth take a huge toll on women's survival and health because of poor nutrition, inadequate access to reproductive health and family planning services, and the lack of trained birth attendants. Worldwide, more than half a million mothers die each year from causes related to pregnancy and childbirth. These mothers leave behind 2 million maternal orphans. Newborns whose mothers die in childbirth are 10 times more likely to die within the first two years. Additional effects on the greater community include lost productivity and associated economic impacts.

USAID uses a set of feasible, low-cost interventions and best practices to achieve the greatest possible impact in reducing mortality among mothers and newborns. These evidence-based interventions and approaches include:

- Improving basic maternal/child health and family planning delivery systems
- Increasing the percentage of births attended by a trained provider
- Improving prenatal care and obstetric care

- Promoting birth-related community education and support efforts

In contrast to the Global Health pillar's other SOs, nearly 40% of all USAID maternal health funds and activities are managed through central or regional programs and provide expert technical assistance to country programs. While mission programs in maternal health tend to be small, they work in close conjunction with activities under the other Global Health SOs, especially the child health and nutrition SO.

For GH Objective 3, operating units reported on 10 SOs: 90% met or exceeded their targets in FY 2001. This is more than the 85% Agency-level performance target.

Examples of targets that were met

USAID efforts to increase the percentage of births attended by a trained provider have been successful in a number of countries. In Egypt, the percentage rose from the baseline of 46.3% in 1995 to 60.9% in 2000 (vs. the planned level of 54%). In Cambodia, trained midwives in target areas of the Reproductive Health Alliance attended more than 30% of the deliveries. Data from a study in West Java, Indonesia, suggest that 55% of births were attended by a skilled midwife—an increase from 31% in 1997. In Honduras, the percentage of births attended by trained providers in health institutions increased from 54% in 2000 to 62% in 2001.

USAID helped revise the Zambian pre-service registered midwifery curriculum to reflect management of labor, management of malaria in pregnancy, voluntary counseling and treatment (VCT) for HIV/AIDS, and prevention of mother-to-child transmission. Similar revisions were initiated for the basic nursing curriculum. To create demand for improved maternal and newborn health services and to establish links between the community and service delivery providers, USAID helped establish the Zambia White Ribbon Alliance for Safe Motherhood, launched in May 2001 with 22 institutional members. USAID support to the Alliance leveraged additional United Nations funding for advocacy and social mobilization activities.

GH Objective 4: Reduce HIV transmission and the impact of the HIV/AIDS pandemic

The HIV/AIDS pandemic is one of the most urgent public health concerns worldwide. More than 60 million people have become infected with the HIV virus since the early 1980's, and about 20 million have died. As the disease continues to spread, its impact on individuals, families, communities, and whole societies is potentially devastating, and HIV/AIDS has begun to erode social and economic progress in many countries. This pandemic, so called because it affects every country in the world, poses highly complex challenges to international assistance agencies. Approximately 95 percent of people infected with HIV/AIDS live in developing countries where poverty, malnutrition, inadequate healthcare systems, and migration must all be addressed as part of HIV prevention and care programs.

The international donor response to the pandemic has accelerated markedly in the last few years. Since 1999, USAID has almost tripled the resources it is directing toward the HIV/AIDS pandemic, to $510 million in FY 2002. The Agency has created a new Office for HIV/AIDS within the Bureau of Global Health, which has developed an Expanded Response Strategy that prioritizes interventions and focuses efforts on HIV/AIDS prevention, care, and surveillance.

During 2001-2002, USAID played a key role in launching the Global Fund to Fight Aids, Tuberculosis, and Malaria. The Global Fund is a public-private partnership established to attract, manage, and disburse additional resources from donors, foundations, and corporations to combat these three diseases.

USAID's HIV/AIDS programming works to achieve the following outcomes:

- Behavior change to reduce the risk of HIV transmission, and prevent other sexually transmitted infections (which increase HIV infection risk)
- Reduced stigma and improved lives for persons living with HIV/AIDS
- Increased local capacity to take on these efforts
- Improved quality and availability of disease surveillance and program evaluation information

In FY 2002, more than 60 countries worldwide received technical and program assistance from USAID for fighting HIV/AIDS. Twenty-three of these have been identified as "intensive focus" countries that are receiving highest priority assistance from the Agency. USAID combines the following approaches to achieve its program objectives in combating HIV/AIDS:

- Information, education, communication and training programs for behavior change
- Improving HIV/AIDS and sexually transmitted infection (STI) treatment services
- Increasing the supply of pharmaceutical commodities and condoms, with emphasis on social marketing and the role of NGOs
- Supporting efforts to reduce mother-to-child transmission (MTCT)
- Engaging with host governments to improve HIV/AIDS policy

Evidence is now emerging that prevention strategies are having a significant impact. While the epidemic continues to expand in many areas, some countries in Africa have seen a "plateauing" and even a reduction of HIV infection rates over the last 5-6 years (*See page 155*). USAID is playing an increasingly important role in funding and evaluating the interventions required to control the epidemic.

For GH Objective 4, operating units reported on 32 SOs. Of these, 91% met or exceeded their targets in FY 2001, exceeding the 85% Agency-level performance target.

Examples of targets that were met

USAID/Rwanda supported the national effort to develop voluntary counseling and testing (VCT) guidelines and an associated curriculum for training VCT counselors. The number of VCT centers adhering to those quality standards tripled to 12 centers in 6 provinces. These centers achieved 108% of their client target number, serving 40,310 clients. Of the clients who gave blood samples for HIV testing, the percentage of those who returned to the clinic to receive their test results and post-test counseling increased from 68% in 2000 to 96% in 2001, against a target of 95%. In 2001, the mission launched the "KUBA" campaign for HIV prevention among Rwandan youth. USAID launched KUBA with a nationally broadcast "Town Meeting" that reached an estimated 3.6 million youth through direct participation, radio, and television.

Evidence is now emerging that prevention strategies are having a significant impact. While the epidemic continues to expand in many areas, some countries in Africa have seen a "plateauing" and even a reduction of HIV infection rates over the last 5-6 years. USAID is playing an increasingly important role in funding and evaluating the interventions required to control the epidemic.

Examples of targets that were not met

Brazil is the region's epicenter for HIV/AIDS and accounts for the majority (52%) of reported AIDS cases in Latin America and the Caribbean, a disproportionate share given that Brazilians are only one-third of the region's population. While the USAID/Brazil health program demonstrated many successes in FY 2001, the SO did not meet all expectations. This was due primarily to a significant change in the Mission's HIV/AIDS portfolio. In April 2001, USAID/Brazil terminated its cooperative agreement due to inadequate financial and programmatic performance. As a result, the planned targets for strengthening the technical capacity of USAID-supported AIDS programs were not achieved. The Mission has since shifted resources (1) to strengthen the more successful activities of its HIV/AIDS prevention portfolio, which include expanding condom social marketing initiatives to other regions within Brazil, (2) to strengthen the management capacity of selected Brazilian NGOs that work in HIV/AIDS prevention, and (3) to support new operations research activities in HIV/AIDS prevention, tuberculosis (TB) control, and HIV/TB co-infection.

Global Health Objective 5: Reduce the threat of infectious diseases of major public health importance

In contrast to HIV/AIDS, other infectious diseases, especially tuberculosis and malaria, have not received high levels of public attention. These diseases also have a huge public health impact, especially in the developing world, where most of the associated death and debilitating illness occurs. Each year, 2 million people die from TB and up to 2.5 million from malaria.

Global Health's fifth objective is focused on supporting programs to combat TB, malaria, and other infectious diseases and to address the critical issue of antimicrobial resistance to the drugs used to treat infectious diseases. USAID has played an important role in developing global initiatives such as STOP TB, Roll Back Malaria, and the Global TB Drug Facility. During the past fiscal years, USAID has supported the expansion of these efforts and has played a key role in the establishment of the Global Fund to Fight AIDS, Tuberculosis, and Malaria.

USAID works through more than 50 country missions and regional offices to implement programs related to this SO. USAID's infectious disease efforts have focused on:

- Slowing the emergence and spread of antimicrobial resistance, targeted at the principal microbial threats to all countries: pneumonia, diarrhea, sexually transmitted diseases, tuberculosis, and malaria
- Testing, improving, and implementing options for tuberculosis control
- Implementing new disease prevention and treatment efforts focused on malaria and other infectious diseases of major public health importance
- Strengthening surveillance systems by enhancing detection capability, information systems, and data-based decision-making and response capacity

For GH Objective 5, operating units reported on 10 SOs: 80% met or exceeded their targets in FY 2001. This is less than the 85% Agency-level performance target and will be addressed in FY 2003 by improving performance management at the operating unit level.

Examples of targets that were met

Together with the LAC Bureau and USAID/Peru, USAID/Bolivia designed a regional Amazon Malaria Initiative that embraces a cross-border approach. USAID-supported drug efficacy trials led to a new national protocol for treatment of falciparum malaria that lowers the risk of antimicrobial resistance, translating into less disease in circulation. This was coupled with strong environmental measures to control the vector. An interactive CD-ROM was developed to train health workers in tuberculosis, reducing the need for costly off-site training that removes people from their routine service delivery.

In the Democratic Republic of Congo, as targeted, a national malaria policy was developed, a new drug policy replacing chloroquine with Fansidar was adopted after countrywide efficacy studies showed high rates of resistance to chloroquine and new treatment guidelines were distributed. To improve capacity, about 140 microscopists were trained, 245 medical doctors and nurses were trained in clinical management of noncomplicated malaria, USAID supported the training of 161 medical personnel in management of severe cases, and staff of the national malaria control program received training or participated in a variety of international conferences. In order to improve prevention, insecticide-treated materials (ITMs) were introduced in two pilot health zones (Maluku and Kinkole). In addition, an integrated malaria control pilot project in the Kinshasa neighborhood of Kingasani (population 400,000) began.

Example of targets that were not met

USAID/Mexico did not begin implementing its four-year tuberculosis program according to its original schedule, and consequently none of its 2001 targets were met. The implementation delays resulted from a protracted delay in achieving a formal agreement between the two governments, which stemmed from major changes in Mexico's administrative leadership that took place after the 2001 elections. High-level efforts on the part of the U.S. mission in Mexico were able to bring about a finalized agreement in August 2002, after a nearly two-year review by local officials. A new two-year implementation and procurement plan has been drafted. USAID is negotiating contracts with implementing agencies. The program will concentrate on 13 target areas with the highest TB prevalence, including six located along the U.S. border. The USAID mission has found a high level of commitment, cooperation, and expertise among technical counterparts in the Ministry of Health.

Democracy, Conflict, and Humanitarian Assistance (DCHA)

Over the past three decades, democracy and freedom have spread globally at an unprecedented rate. USAID's democracy and governance programs have played an important role in these historic accomplishments; however, the heightened threat of terrorism has placed a greater emphasis on helping states to move toward more effective, accountable, legitimate, and democratic governance.

USAID's Democracy, Conflict, and Humanitarian Assistance (DCHA) pillar integrates programs in democracy and governance, economic and social development, agriculture and food security, international disaster assistance, and postconflict transition initiatives that prevent the reignition of conflict. In addition, USAID is in the process of creating a crosscutting approach to conflict prevention and management, with the goal of anticipating crisis, mediating conflict at all levels, and addressing the economic and political (or governance) causes of conflict.

By promoting and assisting the growth of democracy—by giving people the opportunity to peacefully influence their government—the United States advances the emergence and establishment of societies that will become better trade partners and more stable governments. By facilitating citizens' participation and trust in their government, USAID's democracy efforts can help stop the violent internal conflicts that lead to destabilizing and costly refugee flows, anarchy and failed states, and the spread of disease.

The Agency's new Democracy, Conflict, and Humanitarian Assistance pillar is supported by six objectives (described in table 1.1). These objectives and their achievements are discussed below.

DCHA Objective 1: Strengthen the rule of law and respect for human rights

Respect for the rule of law and the development of an effective and equitable justice system are essential underpinnings of a democratic society. Nearly two-thirds of countries where USAID currently works have been ravaged by civil conflict over the past five years. Civil war has produced an unprecedented number of people who have fled their homes in search of food and personal security. Estimates of displacement in 47 countries suggest that at least 25 million people were internally displaced by the end of 2001. Many of these countries continue to be marked by widespread violence, collapse of central political authority and public services, the breakdown of markets and economic activity, massive population dislocation, and food shortages leading to starvation, malnutrition, or death.

By promoting and assisting the growth of democracy—by giving people the opportunity to peacefully influence their government—the United States advances the emergence and establishment of societies that will become better trade partners and more stable governments.

In the area of rule of law, USAID works to help establish effective legal systems, including reforming the legal code, establishing an impartial judicial system, and reducing corruption. A well-developed system of justice helps guarantee the protection of democratic rights while providing the legal framework for social and economic progress. The Agency supports such diverse activities as training judges and lawyers in improved legal procedures, helping to introduce new practices, such as alternative dispute resolution, into national judicial systems and legal curricula, and streamlining the courts' administrative and management systems. With regard to human rights, key approaches to achieving this SO include:

- Fighting corruption by establishing mechanisms for government transparency and accountability
- Increasing citizen participation in the political system
- Supporting the drafting of better laws

For DCHA Objective 1, operating units reported on 24 SOs: 80% met or

A representative democracy that encompasses a free and fair competition, accountability, and transparency is crucial to country development and to U.S. national interests. USAID is working to reform the political process by strengthening democratic culture among governments, citizens, and civil society organizations.

exceeded their targets in FY 2001. This is less than the 85% Agency-level performance target and will be addressed in FY 2003 by improving performance management at the operating unit level.

Examples of targets that were met

In Sri Lanka, USAID's program benefited citizens from minority and disadvantaged groups. Assistance to the Human Rights Commission, which focuses on complaints against the police and the military, led to the conclusion of 80% of the 1,713 complaints received. USAID support to the Commission also maintained a high success rate for cases involving disappearances, locating 70% of the missing persons reported. In the Caribbean, USAID assistance has modernized the legal system of the Organization of Eastern Caribbean States (OECS) countries that suffered from dated management techniques and a resulting backlog of cases. USAID helped to computerize case files, set up an alternative dispute resolution system, and train judicial staff.

Example of targets with mixed results

This strategic objective intends to improve the rule of law in Russia by addressing three interrelated elements: Judicial and legal reform, human rights and corruption. 12 of 19 targets were met. Progress has been made in laying a foundation, but lasting results remain far off.

For judicial and legal reform, Russia has passed laws to strengthen the judiciary by clarifying its legal position, providing additional financial resources, and mandating jury trials in certain criminal cases. These laws and necessary improvements still need to be implemented for desired results to be accomplished. On the human rights side, the situation is bleaker, with continuing erosion of broadcast media and religious freedom rights. In response, USAID has supported NGOs that are gathering information on human rights and other abuses. Corruption continues to be pervasive, despite USAID supported efforts by NGOs and prominent government officials to identify and address this problem. The prospects for significant improvement in establishing the rule of law depend heavily on continued political will within both the presidential administration and the judiciary. In any event, the development of the rule of law in Russia will be a long-term endeavor.

DCHA Objective 2: Encourage credible and competitive political processes

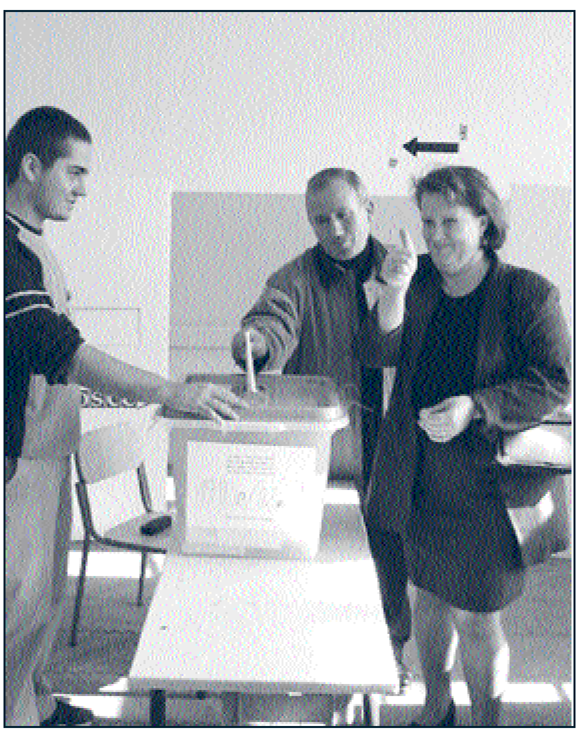
Although some elements of democracy can develop before competitive elections are held, a country cannot be fully democratic until its citizens can freely choose their representatives. A representative democracy that encompasses a free and fair competition, accountability, and transparency is crucial to country development and to U.S. national interests. USAID is working to reform the political process by strengthening democratic culture among governments, citizens, and civil society organizations. Typical SO approaches to improve political processes included:

- Training political parties
- Supporting citizens' efforts to advocate for reforms, such as improved electoral codes
- Establishing autonomous electoral commissions
- Supporting domestic and international election-monitoring programs
- Supporting local- and national-level voter awareness and education programs that introduce democratic concepts and voting practices
- Providing technical assistance and training to independent media to encourage unbiased reporting on electoral issues and processes
- Supporting freedom of the press and combating government corruption in Africa, by developing regional norms and standards for democratic governance

For DCHA Objective 2, operating units reported on 9 SOs: 78% met or exceeded their targets in FY 2001. This is less than the 85% Agency-level performance target and will be addressed in FY 2003 by improving performance management at the operating unit level.

Examples of targets that were met

In Haiti, USAID and its partners trained nearly 11,000 people, more than a third of them women, in almost 1,000 organizations (political groups, parent-teacher associations, and environmental associations). This training resulted in more than 500 attempts by civil society organizations to engage with government in order to defend their rights. More than one-third of these attempts were successful in leveraging assistance, resources, or services from the government for community projects. In Kosovo, USAID's program contributed substantially to building accountable and transparent governance. USAID developed and is piloting improved court administrative systems, providing training for judges and lawyers, and improved access to laws and regulations. USAID strengthened the sustainability of independent media and expanded coverage to 90% of the population, thereby increasing access to information. In Bangladesh, USAID assisted local government reform and human rights advocacy, as well as parliamentary strengthening, citizens' advocacy, anticorruption, and antitrafficking activities. In preparation for the October 2001 parliamentary elections, USAID supported civil society watchdog and voter education activities, political party poll watchers, international observers, and a UN coordination office. With USAID support, Bangladesh deployed more than 150,000 domestic observers, and 630,000 manuals were printed, distributed, and used in training more than 450,000 political party poll watchers. The election was the freest, most transparent, and least violent in Bangladesh's history, and leaders of all of the main political parties made important public commitments for strengthening democracy.



No political process SOs reported failing to meet their targets. However, 22% did not assess their accomplishments. This is most likely due to not having established the new reporting system in a timely fashion. PPC has made changes in reporting requiring that all SOs report unless they are less than one year old.

DCHA Objective 3: Promote the development of politically active civil society

Civil society exists when citizens are able to freely establish associations that help them address mutual concerns. In all regions, USAID supports a wide range of civil society organizations, including women's organizations, business and labor federations, environmental groups, and human rights monitoring organizations. Civil society organizations play two important roles in development. First, they help meet their members' needs, whether by educating members about new professional practices, sharing agricultural inputs, or providing health care or other services. Second, civil society organizations are important constituencies for reform by holding governments and public institutions accountable to citizens. USAID is promoting the development of politically active civil society through the following approaches:

- Increasing citizen participation in political and social decisionmaking
- Strengthening legal systems that promote increased access to justice
- Supporting responsive, transparent, and accountable governance
- Supporting local governments and decentralizing efforts

For DCHA Objective 3, operating units reported on 42 SOs: 67% met or exceeded their targets in FY 2001. This is less than the 85% Agency-level performance target. In 2001, USAID implemented a new performance targeting system that civil society programs were not equipped to meet. Therefore, the number of "not met" assessments increased from 13% to 21% in one year. This will be addressed in FY 2003 by improving performance management at the operating unit level.

As the Administrator referenced in his opening message, the Agency works in

USAID's democracy program focuses on improving government integrity, decentralizing government functions and decisionmaking, promoting more effective policies, and strengthening legislatures to be more representative and responsive.

some of the most difficult environments in the world. This is particularly true for DCHA's civil society and transparency objectives, explaining in part why these objectives achieved results below the Agency's threshold level.

Examples of targets that were met

In Indonesia, the events of September 11 sparked an increased dialogue on democracy and the role of religion in Indonesia. USAID supported notable progress and a range of achievements by nearly 200 NGOs involved in transparent and participatory governance, conflict prevention and resolution, religious tolerance, human rights, media support and monitoring, and anticorruption activities. USAID expanded a program working with more than 20 major religious and secular organizations, including Indonesia's two largest Muslim organizations with a combined membership of 50 million, to help shape a more open and informed debate. In Guinea, efforts to open political processes and emphasize dialogue are assisting national actors to bridge the gap between government and the governed and are helping to reduce social, ethnic, and political tensions that are potential sources of conflict. USAID/Guinea's key achievement was the sponsorship of a high-level conflict prevention activity in response to the destabilizing influence of the border war with Liberia and Sierra Leone.

USAID's civil society program in Albania continues to reflect the country's need for considerable assistance to complete the transition to an open and free democratic republic. USAID's efforts focus on improving the electoral process, promoting political party development, enhancing parliamentary operations, strengthening Albanian civil society organizations, and supporting an independent media. USAID played a leading role within the donor community in supporting the successful parliamentary elections held in June 2001, which were considered relatively open, fair, and free of abuse. These efforts strengthened NGOs, and the number of NGOs influencing policy formation and implementation has continued to increase. During the parliamentary elections, more than 25 local NGOs participated in elections monitoring throughout the country.

Example of targets that were not met

In Tanzania, USAID failed to meet targets because the launch of the flagship cooperative agreement with the lead NGO was delayed to the end of the year; however, USAID initiated other new activities to support increased civic involvement in public affairs and a more open government process. These activities target private-public partnerships in the mission's Health and Natural Resource Management programs. Most significant in 2001 was Government of Tanzania endorsement of the National Policy on NGOs, which enables civil society groups to engage actively in policy formulation discussions and advocacy. USAID directly contributed to the development of this policy by supporting government-civil society discussions and steering committees and by actively participating in workshops to ensure that all views were heard.

DCHA Objective 4: Encourage more transparent and accountable government institutions

Citizens lose confidence in governments that are not accountable and that cannot deliver basic services. The degree to which a government functions effectively and transparently can determine its ability to sustain democratic reform. Thus, USAID's democracy program focuses on improving government integrity, decentralizing government functions and decisionmaking, promoting more effective policies, and strengthening legislatures to be more representative and responsive. Corruption is one of the greatest threats to good governance. Anticorruption efforts reap multiple rewards: because of their impact across many sectors, efforts to encourage democratic governance enhance other USAID initiatives to alleviate poverty; improve economic growth, education, and health care; and protect the environment. In all regions, USAID approaches to promoting more transparent and accountable government institutions include:

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

- Improved fiscal policies and fiscal management practices
- Modernized tax service
- Privatization in areas such as land ownership and the energy sector
- Anticorruption efforts and public administration reform programs
- Citizen participation in government
- Crime enforcement reform
- Free access to information

For DCHA Objective 4, operating units reported on 32 SOs: 72% met or exceeded their targets in FY 2001. This is less than the 85% Agency-level performance target. In 2001, USAID implemented a new performance targeting system that transparency and accountability programs were not equipped to meet. Therefore, the number of "not met" assessments increased from 0% to 12% in one year. This will be addressed in FY 2003 by improving performance management at the operating unit level.

Examples of targets that were met

In Mexico, responding to opportunities opened up by the 2000 elections, USAID initiated assistance for anticorruption, public administration reform programs, and citizen participation in all branches of government. USAID's innovative electoral justice project sponsored local electoral observation and research on postelectoral conflict resolution that contributed to free and fair elections at the state and local levels. In South Africa, USAID assisted historically disadvantaged communities, who under apartheid had no vote and little voice in their governance. Women and children in particular benefit from USAID/South Africa's crime and violence prevention activities, which target the reduction of domestic violence, child abuse, and juvenile crime. USAID helped reduce the criminal case backlog through support for better case-processing systems, the introduction of temporary regional courts and specialized family courts, and technical assistance to 22 sexual-offenses courts. Prosecution of high-profile cases has helped establish high government ethics standards. Other USAID-supported initiatives included the development of guidelines for prosecuting complex organized crime, policies on asset forfeiture and forensic accounting, and improvements in the witness protection program.

Creating the capability to achieve a sustainable peace in fragile states requires international resolve, multidisciplinary approaches, and a long-term commitment and integrated planning within the U.S. Government and the donor community.

Example of targets that were not met

While USAID/Ecuador achieved major successes with regard to increased government accountability, SO targets were not met. The mission's efforts were constrained by a general lack of political leadership for justice reform within the Supreme Court and a lack of clear political direction and interinstitutional coordination in implementing the New Code of Criminal Procedures (NCCP). In addition, USAID suffered staffing constraints. For most of the reporting period, USAID focused primarily on the establishment of a more fair and effective criminal justice system and anticorruption activities. Under USAID/Ecuador's newly revised strategy approved in June 2001, the mission aimed to increase citizen support for the democratic system (with the continuation of key justice and anticorruption programs). The most critical development during the reporting period was the official commencement of the New Code of Criminal Procedures developed with significant USAID support. Other achievements included timely institutional strengthening of the Civic Anticorruption Commission, which investigated, revealed, and recommended sanctions for some of Ecuador's most notorious acts of corruption.

DCHA Objective 5: Mitigate conflict

USAID's new Conflict Management Initiative has three priorities: (1) the support of a more integrated, focused U.S. Government strategy in response to violent conflict; (2) expanding democratic governance programs and institutions at all levels of society to prevent, mitigate, and resolve conflict before it escalates or to reconcile fractured societies in its aftermath; and (3) providing the parties to a conflict with more opportunities, methods, and tools to acknowledge and act effectively on their responsibilities to resolve root-cause issues peacefully. Creating the capability to achieve a sustainable peace in fragile states requires international resolve, multidisciplinary approaches, and a

The need for international emergency assistance when disaster strikes is directly related to the limited capacity of many disaster-prone countries to respond to large-scale emergency events on their own.

long-term commitment and integrated planning within the U.S. Government and the donor community. Key approaches include:

- Social and economic reintegration of ex-combatants
- Economic reactivation and development in conflict-ridden areas
- Reconciliation through interfaith and interethnic dialogue
- Grassroots peace-building initiatives by civil society organizations (CSOs)
- Use of participatory and nonviolent mechanisms to solve community conflicts
- Community dialogue and cooperation on issues and projects of common interest
- People-to-people peace agreements
- Conflict early-warning systems
- Increased networking between government entities and CSOs

Because this is a new program area, indicators/targets were not tracked in FY 2001; nonetheless, in FY 2002 there were major achievements. For example, in Indonesia, USAID is promoting peace-building efforts, especially among Indonesia's urban poor, who are often recruited by extreme elements who use cash payments to entice participation in street protests. USAID's U.S. NGO partners report a reduction in combatant recruitment by radical groups as job opportunities for the unemployed become available and as living areas are upgraded through food-for-work projects. In Central Java, an area prone to sectarian conflict, interfaith committees have used joint food-for-work programs to foster community cooperation on projects such as common marketplaces and athletic fields. The mutual "sweat equity" invested in these projects reinforces community bonds among residents of different faiths and reduces the risk of future conflict. In Africa, USAID conflict mitigation efforts led to the Intergovernmental Authority on Development (IGAD) and the Common Market for Eastern and Southern Africa (COMESA) taking important steps to increase collaboration in managing conflict. USAID supported the development of legal structures and policy processes in the executive branches of governments to address conflict prevention, mitigation, and response within countries and with neighbor states. USAID-funded consultants and regional workshops brought together government and nongovernmental stakeholders to help ensure broad input into formulation of the regional frameworks.

DCHA Objective 6: Saving lives, reducing suffering associated with natural or man-made disasters, and reestablishing conditions necessary for political and/or economic development

Throughout FY 2001, USAID programs responded to the critical needs of people affected by disasters by providing lifesaving assistance: food, water, shelter, medicine, and clothing. USAID deployed quick response teams that included experts from DCHA and across the Agency who made rapid assessments of urgent needs and provided assistance to the survivors of humanitarian crises. USAID used P.L. 480, Title II emergency food commodities and International Disaster Assistance funds to provide critical, quick response to disasters.

In accordance with its mandate of saving lives and alleviating human suffering, USAID's Office of Foreign Disaster Assistance (OFDA) responded to all declared disasters by providing emergency commodities and services. In FY 2001, OFDA obligated $227 million for emergency response, mitigation, and preparedness. It responded to 79 declared disasters in 56 countries, including 54 natural disasters, 16 complex emergencies, and 9 human-caused emergencies. USAID directed this assistance primarily to severely and moderately malnourished children, nursing and pregnant women, the elderly, and other vulnerable groups. In addition to providing emergency relief commodities and services, USAID provided assistance for emergency preparedness and disaster mitigation capacity building at the community, national, and regional levels. The need for international emergency assistance when disaster strikes is directly related to the limited capacity of many disaster-prone countries to respond to large-scale emergency events on their own.

The Office of Food for Peace provides P.L. 480, Title II food commodities to people who are food-insecure and nutritionally vulnerable because of conflict or natural disasters. In FY 2001, USAID provided 697,960 metric tons of Title II emergency food aid, valued at $406,051,900. These resources met the critical food needs of 29,891,000 people in 23 countries.

As the world's largest humanitarian donor, the United States leads the international community in providing humanitarian assistance to people devastated by natural and man-made crises. We also lead the international community in establishing commonly shared performance indicators to assess, monitor, and report on humanitarian assistance.

Title II emergency food aid beneficiaries included refugees, internally displaced persons (IDPs), and people who are malnourished or at-risk of becoming malnourished. IDPs (5,492,000) far outnumber refugees (803,000), posing operational challenges, such as accessing IDPs in countries where infrastructure has collapsed. Africa continues to be the source—as well as the host—of the largest number of refugees and IDPs. The Africa region continued to be the largest recipient (more than 75%) of Title II emergency resources in FY 2001, receiving 519,690 metric tons, totaling more than $307 million.

The Ethiopia program illustrates the use of several funding sources to address and mitigate the effects of disasters. Supported by Child Survival, Development Assistance, International Disaster Assistance, and Title II funds, the program seeks to improve early warning and emergency response capacity at federal and regional levels, decrease vulnerability, and improve the nutritional status of children and at-risk persons. It also seeks to restore socioeconomic institutions in the Ethiopian-Eritrean border region, minimizing the potential for further conflict.

In FY 2001, USAID provided 70% of total food requirements and met critical needs of 6.2 million drought-affected persons. Without USAID assistance, several hundred thousand lives would have been lost in the Somali region, and several million more people would have depleted productive assets and become destitute. Beneficiaries of Title II development and emergency food programs included 736,000 persons in 22 food-insecure zones in nine regions. Among 78,000 rural households studied, the eight Title II partners reduced stunting from 61% in FY 1997 to 39.5% in FY 2001, an impressive result when compared with the 2000 Demographic and Health Survey (DHS) national rate of 52%. USAID also decreased the time period when households do not have sufficient food from 5.6 months in FY 1997 to 4.7 months in FY 2001. Implementing partners exceeded all other program targets, except for one on immunization. The immunization coverage of 53.3% did not meet the target of 60%, but still represents a major gain against the FY 1996 baseline of 26.6%.

Title II development activities are integrated with USAID's programs in health, education, and agriculture. To complement Title II food aid, OFDA provided more than $3 million in nonfood assistance through NGOs, the World Food Program (WFP), the UN Food and Agriculture Organization (FAO), and the UN Office on Coordination of Humanitarian Affairs for activities in health, nutrition, potable water, sanitation, animal health, and early warning. USAID helped 280,000 IDPs to return to their homes and to resume productive lives as part of USAID's assistance along Ethiopia's northern border with Eritrea. The program also provided food aid to 144,800 refugees through WFP.

Through governmental, nongovernmental, and international public organizations, USAID helps displaced people integrate into the economic, social, and political life of their new community. In Colombia, USAID helped 277,000 IDPs, surpassing the planned target of 100,000. Assistance included the provision of housing and improved access to health and education, psychosocial assistance,

and teacher training. To increase economic opportunities for IDPs, USAID funded return-to-farm programs, farm and microcredit for cottage industries and small businesses, training related to income generation, and the strengthening of business cooperatives. To broaden political participation, USAID supported activities to integrate IDPs into communities, protect their rights, and incorporate IDP issues in municipal and departmental social and economic development plans. The program also included the social reintegration of former child combatants through psychosocial and legal assistance, social rehabilitation, educational programs, and vocational training.

Other Achievements

$1 billion hurricane relief and reconstruction program in the Caribbean and Central America

In September and October 1998, Hurricanes Georges and Mitch battered the Caribbean and Central America, leaving more than 19,000 dead or missing, displacing more than 3 million people, causing more than $8.5 billion in damage, and wiping out decades worth of development progress. USAID and the U.S. military provided nearly $300 million of emergency assistance.

Total U.S. Government assistance through FY 2002 was more than $1 billion, including a $621 million supplemental appropriation for reconstruction. USAID successfully coordinated $96 million programmed by 12 other U.S. agencies and $418 million in debt relief and reprogrammed USAID resources. With the exception of Honduras, all disbursements under the Hurricane Georges and Mitch supplemental appropriation terminated in FY 2002. Most reconstruction activities ended in December 2002. Because of the size of the reconstruction program in Honduras, the mission was given an extension until March 2003.

More than 3 million people benefited directly from U.S. reconstruction assistance, and millions more received indirect benefits. The United States provided assistance in economic reactivation, public health, disaster mitigation, housing and shelter, schools and education, anticorruption, and transparency. For example, to revitalize the economy, funds totaling $250 million helped restore 3,000 kilometers of roads and bridges, 10,700 hectares of farmland, the incomes of 90,000 microentrepreneurs, and 200 kilometers of power lines. In public health, funding of $145 million helped restore 327 health facilities and more than 40,700 water and sanitation facilities for more than 1.6 million people. To mitigate future disasters, a budget of $104 million helped establish six national and regional satellite and ground-based hydro-meteorological weather and flood forecasting systems.

The massive and successful response to these disasters was as unparalleled as the devastation itself. USAID is proud to have led the combined effort by other U.S. Government agencies, nongovernmental organizations, and the private sector to overcome huge logistical and institutional obstacles. U.S. assistance helped create a network of knowledge, technology, and cooperation that will continue to serve the region.

USAID Leads Global Interagency Initiative to Monitor, Report, and Evaluate Humanitarian Assistance

As the world's largest humanitarian donor, the United States leads the international community in providing humanitarian assistance to people devastated by natural and man-made crises. We also lead the international community in establishing commonly shared performance indicators to assess, monitor, and report on humanitarian assistance. USAID monitors the health and nutritional status of populations, using two benchmark indicators: crude mortality rate (CMR) and prevalence of acute malnutrition in children under five years of age. Rates of mortality and malnutrition decrease when essential needs are met, such as food, water, emergency medical care, and shelter. Effective humanitarian assistance helps decrease CMR and malnutrition rates.

Since adopting these humanitarian assistance indicators in 1999, USAID sought the collaboration of U.S.

Department of State and other donors to use them for policy and programming decisions. Under the auspices of USAID, U.S., Canadian, and European NGOs; international and UN organizations; universities; and donors came together for the first time in July 2002 to establish a standardized methodology to assess population status in emergency situations, to help identify needs, and to prioritize resources. The group established consensus on the use of mortality and nutritional status, which are considered to be the most vital, basic public health indicators of the severity of a humanitarian crisis. The USAID-led initiative, Standardized Monitoring and Assessment of Relief and Transitions (SMART), seeks to institute a global, coordinated system for gathering, analyzing, reporting, and disseminating information on humanitarian assistance. It will ensure that a range of tools, such as an independent technical body of experts to review and validate surveys, training, and guidelines, are available. SMART will study and incrementally add other indicators that are appropriate for crisis and transition situations. It is hoped that this effort will help to prioritize assistance based on needs and therefore save lives. These indicators are useful for monitoring the extent to which the relief system is meeting the needs of populations in crisis, and thus the overall impact of humanitarian assistance.

Transition Assistance. In addition to emergency response, USAID also provides transition assistance following complex emergencies. Transition programs are vital to ensure that critical needs are met over the intermediate term, that scarce resources are shared equitably, that national reconciliation occurs, and that the instability that typically follows disasters does not lead to reignition of conflict or crisis.

By expanding USAID's range of partners, exploring innovative ideas, and leveraging new resources, GDA is creating new mechanisms to address underdevelopment. Alliance partners share resources and responsibility and achieve greater impact than any single organization could accomplish on its own.

USAID's Office of Transition Initiatives (OTI) provides transition assistance globally. As the number of crises worldwide continues to increase, USAID must be able to move quickly and effectively to meet transition challenges. Working closely with local, national, international, and nongovernmental partners, OTI carries out short-term, high-impact projects that increase the momentum for peace, reconciliation, and reconstruction. Strategies are tailored to meet the unique needs of each transition situation. With its special programming flexibility, OTI puts staff on the ground swiftly to identify and act on what are often fleeting opportunities for systemic change. In FY 2001, OTI advanced peace and democracy in eight conflict-prone areas: Colombia, East Timor, Indonesia, Kosovo, Nigeria, Peru, Serbia-Montenegro, and Sierra Leone. In addition to OTI's core funding of $50 million from the Transition Initiatives account, USAID contributed additional funds from other accounts, augmenting OTI's budget to $74 million.

Global Development Alliance (GDA) Pillar

Globalization has brought new urgency to foreign assistance. With increased opportunities for prosperity in a global economy and with dramatic advances in telecommunications, trade, life expectancy, literacy, and health have come new challenges. Today's global development challenges, from pandemics to terrorism, are more complex, not easily defined, and lack readily apparent solutions. USAID's Global Development Alliance recognizes this new context for foreign assistance and the changing array of institutions and individuals now involved in economic and social development.

Traditional donors—USAID, other bilateral donors, the World Bank, the United Nations—are no longer the sole sources of development resources, ideas, or efforts. New players, including corporate America and foundations, universities, nongovernmental organizations (NGOs), and other development partners, are actively seeking ways to manage development challenges and are making important and sizable contributions. The Global Development Alliance (GDA) approach responds to this changed environment and extends USAID's reach and effectiveness, combining the Agency's strengths with the resources and capabilities of other prominent actors.

Based on long experience with public-private alliances, USAID is mobilizing these resources and building development alliances to achieve shared objectives. By expanding USAID's range of partners, exploring innovative ideas, and leveraging new resources, GDA is creating new mechanisms to address underdevelopment. Alliance partners share resources and responsibility and achieve greater impact than any single organization could accomplish on its own

Through the GDA, USAID fulfills its development mandate through an innovative approach that:

- Responds to a new global environment and new challenges
- Extends USAID's reach and effectiveness in meeting its development objectives
- Leverages additional resources for development impact
- Fosters increased cooperation between USAID and traditional and new partners and promotes the sharing of resources and responsibility to achieve greater impact than any single organization could accomplish on its own.

Within the GDA Secretariat, alliances are being made with a variety of partners in areas such as education, vocational training for youth, information technology, forest certification, sustainable tree crops, water, and small-enterprise development. With support from the Secretariat, USAID missions and central bureaus are working toward an estimated 70 new alliances. Wherever USAID pursues a sustainable development agenda, there is increased reliance on the use of alliances in all sectors and regions.

GDA is a crosscutting pillar that focuses on public-private alliances as a means of achieving greater development impact. GDA uses three indicators to measure progress in building alliances: (1) the number, type, and value of public-private alliances established each year; (2) the extent of non-Federal resource leveraging; and (3) the range of partners.

The Secretariat has gathered Agencywide preliminary baseline data in FY 2002. Actual performance information for this new pillar will not be available until next fiscal year.

Management

In order to realize USAID's corporate vision to be the world's premier development and humanitarian agency supporting the U.S. foreign policy agenda, the USAID management goal is to "achieve USAID objectives in the most efficient and effective manner." As noted in table 1.1, USAID has identified five management objectives to achieve this goal, each of which are discussed below.

Management Objective 1: Accurate program performance and financial information available for Agency decisions

In order to optimize taxpayer funds for international development and relief, USAID decision makers must have sound program and financial information that meets Federal accounting standards. To achieve this objective, USAID focused on achieving seven financial management performance targets in FY 2002, as shown in table 1.4.

Table 1.4

Financial Management Performance Targets	Status of Target
1. Establish a firm date for accelerated deployment of the core accounting system.	Met
2. Put in place a core financial system that supports overseas mission financial reporting at the strategic objective level, in accordance with the Agency's accounting classification str ucture.	Met
3. Complete mission accounting system security certifications for at least 50% of the overseas accounting stations.	Not Met
4. Implement electronic interfaces and data repositories for significant feeder systems.	Met
5. Implement USAID-based reportin g tools to support enhanced financial reporting for decision making and resource management.	Met
6. Select priority enhancements to core financial system implemented (e.g., USAID-based vendor query and electronic invoicing capabilities, USAID-based core financial system upgrade, and Agency reorganization).	Partially Met
7. Develop a cost accounting system capable of allocating the full costs of Washington programs and operations to Agency goals.	Met

The cornerstone of improving USAID financial management is the implementation of a fully compliant, integrated core financial system. USAID began to achieve this goal in FY 2001 with the Washington headquarters launch of Momentum (called "Phoenix" in USAID), a Joint Financial Management Improvement Program (JFMIP)-compliant commercial off-the-shelf (COTS) accounting system. To fully deploy the core accounting system, a Business Systems Modernization study recommended that USAID pilot the system overseas in FY 2003, with full deployment scheduled in FYs 2004 and 2005. USAID management approved this recommendation, and budget documents (including business cases) were prepared. This documentation helps demonstrate how overseas deployment of a USAID-based and integrated financial management system will provide a common Agencywide system for budget execution, accounting, and financial management; provide more timely, reliable, and useful financial information for decisionmaking; improve accountability; and provide a foundation for integration of other USAID-based initiatives. The current schedule for field deployment is contingent upon approval of the Agency capital asset plans and funding requests, and the results of a collaborative study with the Department of State regarding the feasibility of integrating financial management systems.

In FY 2002, USAID implemented the MACS Auxiliary Ledger (MAL) version 3.0, which is the mechanism that consolidates mission information, provides for the summarised posting of mission data to Phoenix general ledgers and provides a database from which mission financial reporting at the strategic objective (SO) level can be consolidated for reporting of world-wide financial information in accordance with the Agency's accounting classification structure.

The Agency did not meet its target to complete some mission accounting system security certifications and accreditation (C&A) as the 10 MACS C&As originally scheduled for completion in FY 2002 were deferred due to consideration of accelerated deployment of Phoenix. USAID met targets to interface the financial system with major feeder systems, such as the internal Acquisition & Assistance procurement system, the Department of Health and Human Service/PMS system for grant letters of credit, the Riggs Bank loan servicing systems and to the MACS Auxiliary Ledger which consolidates mission information. In the summer of 2002, USAID successfully upgraded Phoenix to a next generation of software that will enhance the system and enable overseas deployment. Also in FY 2002, USAID-based reporting tools to support enhanced financial reporting for decision-making and resource management were successfully implemented with resulting reports now being used to support stakeholders on Capitol Hill and in the Office of Management and Budget (OMB).

Although the Agency implemented the use of the invoicing document in Momentum for routing and approval of vendor invoices, full electronic invoicing and web vendor capability will not be available until Momentum Release 5.0 is implemented in USAID. In May 2002, the Agency implemented the web-based version of Momentum (3.7.2). This positions the Agency to deploy the core accounting system worldwide. During FY 2002, the Agency also enhanced its web based accruals process, began tasks to implement credit card capability and Agency reorganization, and piloted e–procurement in four locations.

To develop a system to fully allocate administrative costs to Agency strategic goals, USAID created a cost allocation model at headquarters that currently allocates indirect costs recorded in the Management Bureau to benefiting bureaus. This target was designed as an interim target, not yet intended to be worldwide or full implementation of a cost accounting system. Full cost allocation will not be accomplished until Phoenix is implemented worldwide. The focus in FY 2002 was on developing a system that would be implemented in stages beginning with M Bureau cost allocation in Washington. For FY 2002, off-line cost allocation techniques were used to develop costs that were allocated to strategic objectives and then linked to Agency goals.The current level of allocation is sufficient for USAID to produce the Statement of Net Costs, and for the auditors to audit the statement. USAID plans to begin using the cost allocation module worldwide in 2004. This will allow for the assignment of indirect costs to the offices that benefit from them and will provide management a tool for determining full costs at the SO level.

Management Objective 2: Staff skills, Agency goals, core values, and organizational structures better aligned to achieve results

USAID has focused aggressively on effective workforce planning, aligned with the PMA's focus on strategic

In FY 2002, one of USAID's major management reform initiatives related to human capital management was restructuring of the pillar bureaus. This restructuring was designed to concentrate resources in areas of programmatic emphasis and to systematically "delayer" the organization.

management of human capital. In FY 2002, USAID submitted to the Office of Management and Budget (OMB) and the Office of Personnel Management (OPM) a draft human capital plan. This plan is being developed in accordance with OPM's Human Capital Assessment and Accountability Framework.

In particular, USAID focused on recruitment, training, and repositioning of staff to address demographic and skill challenges identified by workforce analyses. Foremost among these challenges is the high number of retirement-eligible employees. The average Civil Service (CS) employee is 48 years old, and the average Foreign Service (FS) employee is 49, while the governmentwide average age is 46. The Agency's direct-hire staffing level declined by approximately 40% from the end of FY 1992 to September 30, 2000. On September 30, 1992, USAID had 3,163 direct hires, compared with 1,947 by the end of FY 2000. At the end of FY 2002, the level stood at 1,996. While attrition slowed at USAID in FY 2002, the number of employees eligible to retire continues to increase. This expected attrition is particularly serious, because USAID's current staff level is insufficient for adequate management oversight of our existing portfolio, let alone major increases planned for HIV/AIDS, Afghanistan, and Pakistan.

To manage USAID's human capital more effectively to enable, encourage, and develop a workforce able to respond to the challenges of the 21st century, USAID established the three targets outlined in table 1.5.

The Agency established FY 2002 target employment levels at no less than 1,972 for combined CS and FS employees. Because of recruitment efforts that resulted in rapid deployment of staff in direct-hire labor categories and services, USAID exceeded this target, ending the fiscal year with 1,996 employees. Crucial to this success was USAID's ability to streamline the recruitment process by using a software product called Avue®. USAID now uses Avue exclusively for recruiting GS and FS (New Entry Professional) employees. Avue, however, is not used for lawyer recruitment in the Office of General Counsel because these positions are considered "excepted service." Avue has enabled the Agency to reduce the recruitment process for Civil Service candidates (i.e., issuance of a selection certificate) to an average of 29 days vs. an average of 223 days using the old, manual process.

In FY 2002, one of USAID's major management reform initiatives related to human capital management was restructuring of the pillar bureaus. This restructuring was designed to concentrate resources in areas of programmatic emphasis (EGAT, DCHA, GH, and GDA) and to systematically "delayer" the organization. By the end of FY 2002, USAID had finalized 10 workforce restructuring plans and developed performance indicators to evaluate recruitment and efforts to rationalize staff allocations. Only one plan remained pending on September 30, 2002.

In FY 2002, USAID continued to conduct in-house training on critical operational skills. The Agency fell short of the target of 2,200 employees trained in leadership, operations, and financial management by 70, in part because of the prohibition on

Table 1.5

Human Capital Management Performance Targets	Status of Target
1. Meet all FS and CS staffing requirements [i.e., the Agency completes the fiscal year no more than 40 below onboard funded target (no less than 1,972) for FY 2002].	Exceeded
2. Finalize workforce restructuring plan and develop performance indicators to evaluate recruitment and efforts to rationalize staff allocations.	Partially Met
3. Train a total of 2,200 employees in leadership, operations, financial management, and managing for results.	Met (97% of Target)

international travel between September 11, 2001 and December 15, 2001.

Management Objective 3: Support Agency goals and objectives with well planned and managed acquisition and assistance

USAID achieves its mission in partnership with implementers that are funded under contracts, grants, and cooperative agreements; therefore, efficient and effective acquisition and assistance (A&A) services are critical. In FY 2002, USAID established six targets, as listed in table 1.6:

Table 1.6

A&A Management Performance Targets	Status of Target
1. Integrate A&A planning with program development through increased use of performance -based contracting (20% of all contracts valued at more than $25,000).	Can not Determine
2. Integrate A&A planning with program development through increased use of new governmentwide advertising system (http://www.FedBizOpps.gov/) by 95% of solicitations valued at more than $25,000.	Exceeded
3. Strengthen A&A competencies of technical and contract staff by finalizing certification standards for Cognizant Technical Officers (CTOs).	Met
4. Strengthen A&A competencies of technical and contract staff by certifying 87% of Contracting Officers (COs) with procurement authority of $2.5 million or more.	Not Met
5. Improve USAID-implementer partnership by simplifying contract administration though an established policy for the delegation of CO authorities to CTOs.	Met
6. Improve consistency in application of A&A policies and procedures through uniform implementation of contracting policies by establishing baseline and targets.	Not Met

In FY 2002, USAID made significant progress toward streamlining business processes, and in an attempt to integrate acquisition and assistance planning with program development, the Agency promoted the use of performance-based contracts. Reports from the missions and from Washington's information database, show that approximately $282 million was obligated in FY 2002 under performance-based service contracts and task orders over $25,000. The database and mission information currently available shows a total of approximately $1,150 million obligated in basic awards and task orders. This data indicates that nearly 25 percent of these new awards were performance-based. However, USAID cannot state that it has met the target of 20 percent because the information is based on contracting officers' interpretation as to whether or not contracts meet the requirements for being performance-based without objective verification.

The Agency's ability to advertise solicitations valued at more than $25,000 via http://www.FedBizOpps.gov/ was a major success and exceeded the target. As a result of staff training and controlled submissions of notices, USAID advertised 100% of USAID solicitations in excess of $25,000 via FedBizOpps in FY 2002. USAID is now positioned to meet the timelines that the Federal Integrated Acquisition Task Force announced in FY 2002.

USAID also strengthened the A&A competencies of technical and contract staff and finalized certification standards for Cognizant Technical Officers (CTOs). Linking the human capital development, procurement, and e-government priorities of PMA, USAID designed and began testing a new online CTO certification course that offers a more cost-effective training method and allows USAID to reach a larger audience.

By the end of FY 2002, 74% of USAID's Contracting Officers (COs) with $2.5 million or more warrant authority were certified under the Procurement Management Certification Program (PMCP). This number fell short of the Agency's goal of 87%, because of (1) restrictions on all nonessential travel from September 21, 2001, through December 11, 2001, and (2) cancellation of all overseas procurement courses during that period. Although some COs are still not fully PMCP-certified, all meet the PMCP training requirements for their respective warrant levels.

In related efforts to simplify contract administration during FY 2002, USAID established a new policy for the delegation of CO authorities to CTOs and focused attention on improving the consistency in application of A&A policies and procedures. Rather than focusing on establishing a baseline and targets, USAID decided to refocus its efforts on making fully operational the Contract Review Board's (CRB's) review of contracts of more than $10 million. By the end of FY 2002, the CRB was fully operational in USAID/ Washington, and mission actions of more than $10 million were also being submitted to the CRB for review. Another achievement toward uniform implementation of contracting policies was the development of standard Indefinite Quantity Contract (IQC) formats.

Management Objective 4: Support Agency goals and objectives with better information management and technology

In FY 2002, USAID established the targets in table 1.7 to address weaknesses in USAID's information resource management processes and to enhance its ability to comply with Federal requirements and regulations.

In FY 2002, USAID met all targets for improving information technology efficiencies and effectiveness. Under the auspices of the transformation initiative, a concept of operations study was conducted to examine alternatives for an overseas deployment of an accounting system. The study concluded that mission accounting can be integrated with the headquarters core accounting system and that some financial transactions currently processed at the missions could be processed at regional centers. Forty-seven missions were upgraded with Windows 2000, a new network operating system, and a new e-mail system. Also in FY 2002, USAID conducted a high-level vulnerability assessment of information systems security; prioritized, funded, and scheduled corrective actions; and created a Plan of Action and Milestones (POA&M) to track the actions.

Table 1.7

Information Management and Technology Targets	Status of Target
1. Complete a study and develop a plan to reengineer Agency business practices to accelerate deployment of improved Agencywide systems.	Met
2. Upgrade 41 overseas missions with new network operating system.	Exceeded
3. Rank security investments and execute actions to reduce risks in general control environment.	Met

Provide Effective Logistical and Administrative Services

To provide effective and efficient logistical and administrative services, USAID needs to maximize technology and personnel. In addition, USAID must be prepared to continue operations in the event of an emergency. Because this is a new reporting area, FY 2002 targets were not established; nevertheless, USAID achieved important successes in FY 2002, such as improvements in travel management and the Continuity of Operations Plan (COOP) program and operational policies.

During FY 2002, the Agency undertook efforts to enhance and improve its COOP program. Lessons learned from this effort provided a series of recommendations to make the program an ongoing, continuous improvement process. The Agency has a draft five-year plan that, when implemented, will meet the minimum Federal requirements. Also during FY 2002, USAID updated policies relevant to vital records management, domestic personal property management, and use and control of official vehicles.

Other corrective actions included reinstating and strengthening a database for tracking documents scheduled for declassification and strengthening customer service standards for travel and transportation.

As an international developmental agency, USAID requires extensive staff travel, both domestic and international, and continues to look for ways to improve travel services. USAID/W plans to upgrade to a web-based version of Travel Manager®. This software will allow USAID to eventually migrate to electronic routing and processing for travel authorizations, which are features of the e-travel initiative. In the near future, USAID plans to upgrade to a new subsystem of Phoenix that will enable the Agency to integrate Travel Manager into the Phoenix accounting system for seamless electronic travel authorization and voucher processing. USAID is also implementing an internet based travel booking tool (Fedtrip). This is the tool that was selected by the GSA e-Travel Office. If this internet tool were used to book domestic tickets only, USAID would save approximately $12,000 per year. All of these tools will prepare USAID for utilizing e-Travel solutions. USAID is also exploring internet based systems for shipping and moving household effects which would take advantage of the "state of the art" technology and provide faster and more efficient service. USAID is also utilizing electronic reprographic capabilities for travel documents in order to eliminate the need for paper.

FINANCIAL HIGHLIGHTS

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

Balance Sheet

The Balance Sheet presents amounts available for use by USAID (assets) against the amounts owed (liabilities) and amounts that comprise the difference (net position). Major line items include Fund Balance with Treasury and Loans Receivable. Fund Balance with Treasury is the net funding available in the Department of Treasury accounts from which USAID is authorized to make expenditures and pay liabilities. The majority of Loans Receivables are for loans for which funds have been disbursed under the Direct Loan Programs.

Assets

The assets showing the most significant change from FY 2001 to FY 2002 are Fund Balance with Treasury and Loans Receivable. Fund Balance with Treasury increased by about $684 million, or about 6%. This was primarily due to funds received from the Department of State for the Andean Counter-Drug Initiative, which is new for FY 2002, and an increase in the amount of funds transferred from the Department of Agriculture's Commodity Credit Corporation.

Loans Receivable (net) increased by $464 million in FY 2002. This increase occurred because of a net decrease in bad debt allowance accruals in FY 2002, the amount of which exceeded net reductions in Loans Receivable arising from principal and interest collections during the year. The allowance is the estimated future losses from default and is based on credit risks assigned to countries by the federal government.

Liabilities and Equity

Credit program liabilities represent 83% of USAID's total liabilities. Most of these liabilities are reported as both Due to U.S. Treasury and Loan Guarantee Liabilities. Due to U.S. Treasury represents the cumulative FY 1992 difference between credit program assets and liabilities. Loan Guarantee liability is comprised of an allowance established for potential defaults on loan guarantees obligated before FY 1992 and the estimated subsidy cost of loan guarantees obligated after FY 1991.

Two Credit Program liability line items showing the most significant change in activity from FY 2001 to FY 2002 are the Due to U.S. Treasury and Loan Guarantee Liability. Due to U.S. Treasury increased by about 11% from FY 2001 primarily due to the decrease in bad debt allowance accruals for pre-1992 Direct Loans. Loan Guarantee Liability decreased 10% during FY 2002, resulting from a decrease in estimated future loan defaults on pre-1992 loan guarantees. Both are calculated in accordance with the Credit Reform Act of 1990.

Federal Accounts Payables increased by $34 million primarily due to increased debt to the U.S. Departments of Interior, Agriculture, and Health and Human Services. Other Liabilities also increased by $70.6 million primarily because of the establishment of a new foreign currency account at the Bosnia Herzegovina mission.

Equity

Cumulative Results of Operations increased from FY 2001 generally because of a change in accounting principles applied in FY 2002. In prior years, transfer of funds for the Commodity Credit Corporation was treated as unexpended appropriations. During FY 2002, the U.S. Treasury determined that USAID should account for the transfer as revolving-type funds, not as appropriated-type funds. Therefore, a total of $484 million was removed from unexpended appropriations to cumulative results of operations.

Statement of Net Cost

This statement provides the reader with an understanding of the full cost of operating USAID programs. In FY 2002, approximately 84% of all USAID costs incurred were directly related to support of USAID programs. Costs incurred for the Agency's general operations (e.g., salaries, training, and support for the Office of Inspector General) accounted for approximately 15% of the total USAID cost. Overall, costs increased by 13% from FY 2001, which is consistent with the increase in appropriated funds for additional program and operational activity.

During FY 2002, USAID further improved the reporting accuracy and implemented several improvements to the Statement of Net Costs. One significant improvement is that expenses reported by the missions are now directly linked to an Agency goal. In prior years, allocations were used based on mission ratios.

Statement of Changes in Net Position

This statement identifies those items that caused USAID's net position to change from the beginning to the end of the reporting period. The most significant change was the increase in cumulative results of operations. As discussed previously, Cumulative Results of Operations increased from FY 2001 generally because of a change in accounting principles applied in FY 2002. In prior years, transfer of funds for the Commodity Credit Corporation was treated as unexpended appropriations. During FY 2002, the U.S. Treasury determined that USAID should account for the transfer as revolving-type funds, not as appropriated-type funds. Therefore, a total of $484 million was removed from unexpended appropriations to cumulative results of operations.

Statement of Budgetary Resources

The Statement of Budgetary Resources provides information on how budgetary resources were made available for the year and what the status of budgetary resources was at year-end. During FY 2002, USAID received over $7.9 billion in direct appropriations, and an additional $820 million for transferred appropriations. USAID obligated over 86% of all available budgetary resources for the year. Among the unobligated funds, over 97% is available for new programming and obligating in future years.

Appropriations Received from the U.S. Treasury increased by 13% from FY 2001. This was primarily because of increased funding in the following major appropriations:

- $715 million for the Economic Support Fund
- $581 million for the Child Survival and Health Programs
- $193 million for the Assistance for the Independent States of the Former Soviet Union.

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

Statement of Financing

The Statement of Financing reconciles net obligations as reported on the Statement of Budgetary Resources to net costs reported on the Statement of Net Costs. Generally, net obligations increased by 40% from FY 2001, due to increased appropriations received as discussed above. Changes in the Credit Program collections and an increase in undelivered orders unpaid from FY 2001 account for a significant portion of the $1.1 billion difference in total resources used to finance items not part of the net cost of operations.

Limitations to the Financial Statements

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

MANAGEMENT CONTROL PROGRAM

USAID continued to implement plans to resolve the four material weaknesses reported in FY 2001, and the Agency was able to close one of the four items. USAID continues to maintain an active management control program in response to the Federal Managers' Financial Integrity Act (FMFIA). USAID's FMFIA program uses external and internal audits, annual internal reviews conducted by each of its operating units, special studies, program evaluations, and knowledge and observations of daily operations to identify control weaknesses. The Agency then develops and implements detailed corrective action plans for all weaknesses identified. USAID's Management Control Review Committee (MCRC), which is chaired by the Deputy Administrator, (1) determines the weaknesses reportable to the Congress and President, (2) monitors the status of corrective actions Agencywide, and (3) determines when they have been successfully completed. Parallel committees operate within the Agency's overseas operating units. During FY 2002, management control assessments were conducted by USAID's operating units worldwide in compliance with Agency policy and FMFIA standards.

No new Agency-level material weaknesses were identified during FY 2002; however, the MCRC agreed that inadequate physical security in USAID's overseas buildings and operations represents a significant concern. Without additional financial resources, USAID cannot implement appropriate actions to comply with Federal physical security standards for all employees serving overseas. The MCRC also identified human capital management challenges as a serious problem, but one that should not be reported as a material weakness. The Agency does not have adequate capacity to address these major challenges, either in the form of skilled human resources specialists or automated systems. This deficiency is exacerbated by the aging Federal workforce, with nearly half of USAID's workforce eligible for retirement. Additional resources are also needed to alleviate this weakness.

Progress on these weaknesses is described briefly below.

USAID's New Management System (NMS) Reporting and Resource Management Capabilities – The Agency closed this material weakness as of September 30, 2002. Since 1997, Agency-level financial reporting has not always been sufficiently timely, accurate, or useful to support decisionmaking. The Agency also lacked a system for capturing data on overseas procurement actions to comply with Federal reporting requirements. The deployment of the financial accounting system, Phoenix, in Washington in December 2000 has improved Agency-level financial reporting. Moreover, system enhancements and improvements have enabled the Agency to satisfy external reporting requirements and produce more accurate and timely information. For example, during FY 2002, USAID improved its Mission Accounting and Control System (MACS) Auxiliary Ledger (MAL), developed a Consolidated Flash and Pipeline Report, and implemented the Crystal Enterprise web-based reporting tool. The MAL was enhanced to provide a common accounting classification structure via crosswalks at the operating unit and strategic objective levels, and—in conjunction with the Consolidated Pipeline Report (August 2002)—it enables the Agency to perform Agencywide strategic objective-level reporting. Over the past year, USAID has also implemented more than 20 financial reports that support financial reporting for decisionmaking and resource management.

USAID has also implemented a manual procurement process for capturing mission data. The Mission Procurement Information Collection System (MPICS) is a data-entry mechanism for USAID field missions to enter their past and current award data into a single Washington database for reporting purposes. MPICS is being used until the Agency deploys an Agencywide procurement system.

USAID's Primary Accounting System – Since 1988, USAID's accounting system (1) had not fully complied with all financial system requirements, (2) could not produce accurate and timely reports, and (3) did not have adequate controls. During FY 2001, USAID deployed Phoenix in Washington, successfully migrated financial records to the new system, trained employees on the use of the system, implemented essential interfaces, and provided accurate and timely financial information. Although the Agency has made substantial progress in implementing and enhancing the system, closure of this material weakness is contingent upon the overseas deployment of Phoenix. The schedule for field deployment depends on approval of the Agency capital asset plans and funding requests and on the results of a collaborative study with the Department of State regarding the feasibility of merging financial operations. A delay in commencing overseas deployment would likely delay the target closure date. The current target date for substantial compliance with the Federal Financial Management Improvement Act (FFMIA) is the end of the first quarter, FY 2005.

Information Resources Management (IRM) Processes – USAID plans to implement a process to include (1) procedures to select, manage, and evaluate investments and (2) a means for senior managers to monitor progress in terms of costs, system capabilities, timeliness, and quality. During FY 2001, USAID established an information management integrated product team to formulate and review the Agency's information technology (IT) budget. Disciplined processes in life-cycle management are being provided by experts. Redirecting the Agency from a systems integration organization to a technology acquisition organization helps in achieving a Software Acquisition Capability Maturity Model (CMM) Level 2, a rating target representative of the top one-third of all technical organizations. USAID completed requirements documentation toward CMM Level 2 status for the network upgrade initiative. USAID's Project Management Office (PMO), which will oversee the management of IT projects, is currently being formed. When the PMO is operational and portfolio comparisons are possible, the USAID capital planning and investment management process will be implemented, and this weakness will be closed. The current target date is the end of FY 2003.

Computer Security Program – During FYs 2002–2003, USAID is undertaking a series of major upgrades and modernization activities to its infrastructure that will enhance the computer security posture of the Agency. By the end of FY 2004, USAID plans to fully implement its computer security program, which will comply with the Computer Security Act of 1987, the Agency's administrative policy, and requirements of OMB Circulars A-123, 127, and 130. To help resolve computer security problems, top USAID officials decided to designate information system security investments in the FY 2003 and FY 2004 USAID IT Capital Investment Fund. By following standard certification and accreditation procedures, USAID has corrected eight of its material vulnerabilities. USAID is prioritizing and implementing security projects as funding allows. The Agency's Inspector General, its Chief Information Officer, and external agencies such as the National Security Agency are continuously reviewing best security practices in the IT arena. USAID's management oversight process will continue to assign responsibility and accountability for identifying, tracking, and correcting information security vulnerabilities. Recognizing that computer security will be a continuing issue, USAID plans to implement sufficient measures by the end of FY 2004 to comply with Federal standards in this constantly evolving discipline.

Material Nonconformance of Financial Management System – USAID implemented a commercial off-the shelf (COTS) core financial system in December 2000. The system was implemented in USAID/Washington, without any customization of the baseline American Management Systems (AMS) Momentum Financial product. Momentum is a Joint Financial Management Improvement Program (JFMIP)-compliant core financial system. The USAID configuration of Momentum is called "Phoenix." During FY 2002, USAID interfaced five critical feeder systems that furnish critical information to the core financial system. The Agency also achieved significant reporting improvements that allow it to produce more accurate and timely information. For example, the Agency is now able to report at the strategic objective level for all activities on an Agencywide basis.

Table 1.8: Pending Material Weaknesses

Title	Fiscal Year First Reported	Fiscal Year Targeted for Correction
USAID's Primary Accounting System	1988	2005
Information Resources Management Processes	1997	2003
Computer Security Program	1997	2004

Despite the noted improvements, USAID is not yet substantially compliant with FFMIA requirements. USAID's Mission Accounting and Control System (MACS), a feeder system to the core financial system, does not support a general ledger. Consequently, the core financial system is not substantially compliant with FFMIA requirements for a standard general ledger. Substantial compliance with the FFMIA is contingent on deployment of Phoenix overseas.

The USAID Inspector General has assigned an audit team to evaluate USAID's compliance with FFMIA. The system will be evaluated against a checklist published by the U.S. General Accounting Office. We expect the review to highlight opportunities for improvement with the standards. Based on previous findings by the Inspector General and other assessment teams, we are taking action to strengthen general systems security and information processes.

OVERVIEW OF FY 2004 FINANCIAL MANAGEMENT SYSTEM REMEDIATION PLAN

The implementation of cost-effective and reliable financial management systems to support USAID's worldwide operations continues to represent an enormous challenge for the Agency. To pursue enterprise-wide improvements to its management systems, the Agency is committed to following a "best practices" approach to developing its systems and is undertaking a business transformation. In determining the structure of the capital planning investments needed to support USAID's transformation initiatives, the Agency has (1) relied on a recently completed Business Systems Modernization (BSM) Overseas Concept of Operations study to inform further deployment of the financial system, and (2) documented requirements for enhanced telecommunications infrastructure needed to support the financial system.

USAID has made significant progress in aligning its management goal and objectives to focus on the basic management functions that it must perform well to be a high performing and efficient organization. These objectives recognize that USAID needs to apply technologies and process improvements to provide proven support solutions for internal and external work processes. Investing in systems and services that are generally available to commercial and Government users will deliver these solutions and transform the way the Agency conducts its business.

The government-wide priorities of the Chief Financial Officer (CFO) Council are reflected in this plan. The Council's priorities guide the Agency's goal in recognizing the need for integrated processes and systems that, when implemented, solve end-user and customer problems, achieve performance objectives, and gain compliance with laws and regulations.

USAID's vision is to be the world's premiere development and humanitarian agency supporting US foreign policy goals. There are two major strategic goals to achieve this vision. The first is to improve the reputation and perceptions of the agency with critical constituency groups. The second is to improve the capacity of the Agency.

Business systems modernization addresses both of these goals. Most directly, business systems modernization is the vehicle for improving agency capacity, by increasing the speed, agility, efficiency, program integrity, transparency, and responsiveness of management services within the Agency and for constituents. In addition, the concept of operations incorporates the requirements of the government-wide President's Management Agenda in the area of improved financial performance, as well as expanded electronic government and budget and performance integration.

One of the highest priorities of the Agency is to focus on better service to overseas operations by:

- Streamlining the administrative processes to allow better service to the program support staff and to other stakeholders.
- Increasing transparency of operations to all stakeholders.
- Deploying a core accounting and integrated procurement system to the field.
- Rationalizing the overseas financial and procurement management organization (i.e. provide recommendations on how and where work should be performed).

Simplifying USAID management systems will allow support staff in the field to operate with a common and integrated system and to move away from transaction processing to more value-added services. This will enable USAID to better execute its foreign policy objectives, with readily available information, simplified processes, and better tools for management of operations.

The complete document is accessible at www.usaid.gov/pubs/par02/. It sets forth the Agency's strategy for modernizing USAID's financial management systems and details specific plans and targets for achieving substantial compliance with federal financial management requirements and standards.

AUDIT FOLLOW-UP PROGRAM

The Office of Inspector General (OIG) uses the audit process to help USAID managers improve the efficiency and effectiveness of operations and programs. USAID management and OIG staff work in partnership to ensure timely and appropriate responses to audit recommendations.

The OIG contracts with the Defense Contract Audit Agency to audit U.S.-based contractors and relies on nonfederal auditors to audit U.S.-based grant recipients. Foreign-based organizations are audited by either local auditing firms or the supreme audit institutions of host countries. OIG staff conduct audits of USAID programs and operations, including the Agency's financial statements, related systems and procedures, and Agency performance in implementing programs, activities, or functions.

Table 1.9
Management Action on Recommendations that Funds be Put to Better Use

	Recommendations	Dollar Value ($000)
Beginning balance 10/1/01	4	$182,592
Management decisions during the fiscal year	8	$31,765
Final action	3	$1
Recommendations implemented	3	$1
Recommendations not implemented	-	-
Ending balance 9/30/02	9	$214,356

During FY 2002, USAID received 621 audit reports: 571 of these reports covered financial audits of contractors and recipients and 50 covered Agency programs or operations.

During FY 2002, the Agency closed 495 audit recommendations. Of these, 136 were from audits performed by OIG staff and 359 were from financial audits of contractors of grant recipients. USAID took final action on recommendations with $3.8 million in disallowed costs, and $0.1 million was put to better use during the fiscal year.

At the end of FY 2002, there were 283 open audit recommendations, 24 fewer than at the end of FY 2001(307). Of the 283 audit recommendations open at the end of FY 2002, only 34, or 12%, had been open for more than one year.

As regards the 34 recommendations open for more than one year at the end of FY 2002, USAID must collect funds from contractors or recipients to complete actions on seven of these recommendations. The remaining 27 require improvements in Agency programs and operations. Most of these are tied to USAID's compliance with the provisions of the Government Information Security Reform Act (GISRA) and Federal computer security requirements, general controls over the financial management systems, and USAID's cargo preference reimbursements under Section 901(d) of the Merchant Marine Act of 1936.

Table 1.10: Management Action on Audits with Disallowed Costs

	Recommendations	Dollar Value ($000)
Beginning balance 10/1/01	99	$7,195
Management decisions during the fiscal year	201	$8,458
Final action	208	$3,834
Collections / Offsets / Other	205	$3,790
Write-offs	3	$44
Ending balance 9/30/02	92	$11,819

STATEMENT OF THE CHIEF FINANCIAL OFFICER

The "Independent Auditor's Report on USAID's Consolidated Financial Statement, Internal Control, and Compliance for Fiscal Year 2002 (Report No. 0-000-03-001-F)" contains ten recommendations to address seven material internal control weaknesses and three reportable conditions. We have accepted all of the recommendations and expect to have completed corrective action over the course of FY 2003. Details of the weaknesses can be found in the Auditor's Report on Internal Controls and my response to the report.

The USAID Office of Inspector General (OIG) also reported non-compliance with the Federal Financial Management Improvement Act (FFMIA) of 1996, the Computer Security Act of 1987 and the Debt Collection Act of 1996. The details of the non-compliance may be found in the auditor's report on Compliance with Laws and Regulations. The most significant compliance issue is with the FFMIA and the planned deployment of the USAID Core Accounting System to our overseas Missions. Deployment is currently planned to being in FY 2004 pending the outcome of a joint study with the Department of State on the integration of financial management systems. Until the outcome of the study is known, the exact deployment date cannot be determined. In the mean time USAID will continue to have a non-compliant financial management system. Also, the resolution of the Debt Collection Act compliance issue is dependent on the deployment of the core financial management system to the field.

Computer Security has been identified as a FMFIA material control weakness. Details of the weakness can be found in the Auditor's Report on Compliance with Laws and regulations and my response to the report.

Susan J. Rabern
Chief Financial Officer

PRINCIPAL FINANCIAL STATEMENTS

Consolidated Balance Sheet

U.S. Agency for International Development

Consolidated Balance Sheet as of September 30, 2002 and 2001 (In Thousands)

	2002 (Audited)	2001 (Audited)
ASSETS		
Intragovernmental		
Fund Balance with Treasury (Note 2)	$11,897,972	$11,214,407
Accounts Receivable (Note 3)	496,369	423,577
Other (Note 4)	46,527	76,838
Total Intragovernmental	12,440,868	11,714,822
Cash and Other Monetary Assets (Note 5)	262,088	213,177
Accounts Receivable, Net (Note 3)	31,116	31,017
Loans Receivable, Net (Note 6)	5,997,453	5,533,169
Inventory and Related Property (Note 7)	20,241	26,099
General Property, Plant, and Equipment, Net (Note 8 and 9)	54,449	45,373
Advances and Prepayments (Note 4)	329,762	270,237
Total Assets	**19,135,977**	**17,833,894**
LIABILITIES (Note 16)		
Intragovernmental		
Accounts Payable (Note 10)	69,572	35,496
Debt (Note 11)	16,744	64,528
Due to U.S. Treasury (Note 11)	5,859,175	5,278,463
Other (Note 12, 13, and 14)	50,253	30,872
Total Intragovernmental	5,995,744	5,409,359
Accounts Payable (Note 10)	1,101,961	1,160,274
Loan Guarantee Liability (Note 6)	1,048,751	1,167,235
Federal Employees and Veteran's Benefits (Note 14)	28,251	30,905
Other (Note 12)	317,635	266,437
Total Liabilities	8,492,342	8,034,210
Commitments and Contingencies (Note 15)		
NET POSITION		
Unexpended Appropriations	10,065,290	9,789,358
Cumulative Results of Operations	578,345	10,326
Total Net Position	10,643,635	9,799,684
Total Liabilities and Net Position	**$19,135,977**	**$17,833,894**

The accompanying footnotes are an integral part of these statements

Consolidated Statement of Net Cost

U.S. Agency for International Development

Consolidated Statement of Net Cost for the years ended September 30, 2002 and 2001 (In Thousands)

	2002 (Audited)	2001 (Unaudited)
Costs by Goal:		
Broad-Based Economic Growth and Agricultural Development Encouraged		
Intragovernmental	$132,431	$142,665
With the public	2,808,027	2,969,869
Total	2,940,458	3,112,534
Less earned revenues	(59,673)	(9,970)
Net program costs	2,880,785	3,102,564
Strengthen Democracy and Good Governance		
Intragovernmental	60,947	29,678
With the public	641,207	666,444
Total	702,154	696,122
Less earned revenues	(11,210)	
Net program costs	690,944	696,122
Improve Basic Education		
Intragovernmental	75,921	18,059
With the public	737,461	349,582
Total	813,382	367,641
Less earned revenues	(8,876)	-
Net program costs	804,506	367,641
Stabilize World Population and Protect Human Health		
Intragovernmental	82,005	51,124
With the public	1,472,830	1,026,046
Total	1,554,835	1,077,170
Less earned revenues	(48,687)	(14,611)
Net program costs	1,506,148	1,062,559
Protect the Global Environment		
Intragovernmental	38,791	25,032
With the public	498,318	434,982
Total	537,109	460,014
Less earned revenues	(24,860)	(5,805)
Net program costs	512,249	454,209
Save Lives through Humanitarian Assistance		
Intragovernmental	70,924	38,269
With the public	1,538,770	1,319,788
Total	1,609,694	1,358,057
Less earned revenues	(81,077)	(39,421)
Net program costs	1,528,617	1,318,636
Less earned revenues not attributed to programs	(5,890)	(12,196)
Net Cost of Operations (Note 17)	**$7,917,359**	**$6,989,535**

The accompanying footnotes are an integral part of these statements

Consolidated Statement of Changes in Net Position

U.S. Agency for International Development

Consolidated Statement of Changes in Net Position for the years ended September 30, 2002 and 2001 (In Thousands)

	2002 Cumulative Results of Operations (Audited)	2002 Unexpended Appropriations (Audited)	2001 Cumulative Results of Operations (Audited)	2001 Unexpended Appropriations (Audited)
Net Position, Beginning Balances	$10,326	$9,789,358	$(13,169)	$9,989,029
Prior period adjustments (Note 18)	483,897	(483,782)	11,040	-
Beginning Balances, as adjusted	494,223	9,305,576	(2,129)	9,989,029
Budgetary Financing Sources:				
Appropriations Received		7,936,485		7,035,798
Appropriations transferred in/out		213,366		(271,119)
Other adjustments (recissions, etc)	-	(70,739)	-	(22,657)
ropriations used	7,319,398	(7,319,398)	6,941,693	(6,941,693)
Donations and forfeitures of cash and cash equivalents	104,919		47,917	
Transfers in/out without reimbursement	565,633		-	
Other Financing Sources:				
Transfers in/out without reimbursement	(1,928)			
Imputed financing from costs absorbed by others	13,459		12,380	
Total Financing Sources	8,001,481	759,714	7,001,990	(199,671)
Net Cost of Operations	7,917,359		6,989,535	
Net Position-Ending Balances	**$578,345**	**$10,065,290**	**$10,326**	**$9,789,358**

The accompanying footnotes are an integral part of these statements

Combined Statement of Budgetary Resources

U.S. Agency for International Development

Combined Statement of Budgetory Resources for the years ended September 30, 2002 and 2001 (In Thousands)

	2002 Budgetary (Audited)	2002 Credit Program Financing (Audited)	2001 Budgetary (Audited)	2001 Credit Program Financing (Audited)
Budgetary Resources				
Budget Authority				
Appropriations Received	$7,971,616	$ -	$7,079,139	$ -
Borrowing Authority (Note 19)		465		
Net Transfers	669,622	-	(221,876)	-
Other	32,525	-	-	-
Total Budget Authority	8,673,763	465	6,857,263	-
Unobligated Balance:				
Beginning of Period	1,769,666	796,958	1,427,179	801,380
Net Transfers, Actual	(4,599)	-	-	-
Total Unobligated Balance	1,765,067	796,958	1,427,179	801,380
Spending Authority from Offsetting Collections:				
Earned				
Collected	1,029,293	129,867	954,775	113,985
Receivable from Federal Sources	(678)	(11,327)	(5,799)	-
Change in Unfilled Customer Orders				
Advance Received	-	-	331	-
Subtotal	1,028,615	118,540	949,307	113,985
Recoveries of Prior Year Obligations	128,325	5,904	105,605	-
Permanently Not Available	(987,596)	(48,249)	(934,135)	(51,957)
Total Budgetary Resources	**10,608,174**	**873,618**	**8,405,219**	**863,408**
Status of Budgetary Resources:				
Obligations Incurred Direct (Note 19)	9,012,090	74,639	6,737,588	66,450
Unobligated Balance, Available	1,544,909	793,076	1,653,948	796,958
Unobligated Balance, Unavailable	51,175	5,903	13,683	-
Total Status of Budgetary Resources	**10,608,174**	**873,618**	**8,405,219**	**863,408**
Relationship of Obligations to Outlays:				
Obligated Balance, Net, Beginning of Period (Note 19)	8,887,092	14,665	9,318,003	8,311
Obligated Balance, Net, End of Period:				
Accounts Receivable	(9,987)	11,327	(3,706)	-
Undelivered Orders	8,341,194	14,733	7,980,270	14,091
Accounts Payable	1,100,015	808	1,232,202	573
Outlays:				
Disbursements	8,340,309	67,860	6,746,601	60,095
Collections	(1,029,292)	(129,868)	(955,106)	(113,986)
Subtotal	7,311,017	(62,008)	5,791,495	(53,891)
Less: Offsetting Receipts	-	-	-	-
Net Outlays	**$7,311,017**	**$(62,008)**	**$5,791,495**	**$(53,891)**

The accompanying footnotes are an integral part of these statements

Consolidated Statement of Financing

Consolidated Statement of Financing for the years ended September 30, 2002 and 2001 (In Thousands)

	2002 (Audited)	2001 (Unaudited)
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred (Note 21)	$9,086,729	$6,804,038
Appropriations transferred to/from other	117,337	-
Total Obligations Incurred	9,204,066	6,804,038
Less: Spending authority from offsetting collections and recoveries (Note 21)	(1,147,155)	(1,068,761)
Spending authority transferred to/from other agencies (net)	3,503	-
Total Spending authority from offsetting collections and recoveries	(1,143,652)	(1,068,761)
Net Obligations	8,060,414	5,735,277
Other Resources		
Donated and Credit Program Revenue	(74,574)	(174,440)
Imputed Financing From Costs Absorbed by Others	13,459	12,380
Net other resources used to finance activities	(61,115)	(162,060)
Total resources used to finance activities	7,999,299	5,573,217
Resources Used to Finance Items not Part of the Net Cost of Operations:		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided	(1,111,255)	264,667
Resources that fund expenses recognized in prior periods	(995)	(6,007)
Budgetary offsetting collections and receipts that do not affect net cost of operations		
Credit program collections which increase liabilities for loan guarantees or allowances for subsidy	959,754	1,235,045
Other	6,275	-
Resources that finance the acquisition of assets	33,413	(17,372)
Total resources used to finance items not part of net cost of operations	(112,808)	1,476,333
Total resources used to finance net cost of operations	7,886,491	7,049,550
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods (Note 21):		
Increase in annual leave liability	1,206	1,086
Upward/Downward reestimates of credit subsidy expense	(22,947)	(62,202)
Increase in exchange revenue receivable from the public	39,221	-
Total components of net cost of operations that will require or generate resources in future periods	17,480	(61,116)
Components not Requiring or Generating Resources		
Depreciation and Amortization	10,525	6,863
Revaluation of assets or liabilities	(2,056)	-
Other	4,919	(5,761)
Total components of net cost of operations that will not require or generate resources	13,388	1,101
Total components of net cost of operations that will not require or generate resources in the current period	30,868	(60,015)
Net Cost of Operations	$7,917,359	$6,989,535

The accompanying footnotes are an integral part of these statements

NOTES TO THE PRINCIPAL FINANCIAL STATEMENTS

NOTE 1. Summary of Significant Accounting Policies

A. Basis of Presentation

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

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

1. FASAB Statements and Interpretations as well as AICPA and Financial Accounting Standards Board (FASB) pronouncements if made applicable to Federal governmental entities by a FASAB Statement or Interpretation
2. FASAB Technical Bulletins and the following pronouncements if specifically made applicable to Federal governmental entities by the AICPA and cleared by the FASAB: AICPA Industry Audit and Accounting Guides and AICPA Statements of Position
3. AICPA Accounting Standards Executive Committee (AcSEC) Practice Bulletins if specifically made applicable to Federal governmental entities and cleared by the FASAB as well as Technical Releases of the Accounting and Auditing Policy Committee of the FASAB
4. Implementation guides published by the FASAB staff and practices that are widely recognized and prevalent in the Federal government
5. Other accounting literature, including FASAB Concept Statements; pronouncements in categories 1-4 above when not specifically made applicable to Federal governmental entities; FASB Concepts Statements; GASB Statements, Interpretations, Technical Bulletins, and Concepts Statements; AICPA Issues Papers; International Accounting Standards of the International Accounting Standards Committee; pronouncements of other professional associations or regulatory agencies; AICPA Technical Practice Aids; and accounting textbooks, handbooks, and articles

B. Reporting Entity

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

Programs

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

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 account provides economic resources to developing countries with the aim of bringing the benefits of development to the poor. DA-funded programs promote broad-based, self-sustaining economic growth and support initiatives intended to stabilize population growth, protect the environment and foster increased democratic participation in developing countries. DA resources are 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 assistance to the independent states that emerged from the former Soviet Union. These funds support U.S. foreign policy goals of consolidating improved U.S. security; building a lasting partnership with the New Independent States; and providing access to each other's markets, resources, and expertise.

Special Assistance Initiatives

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

International Disaster Assistance

International Disaster Assistance funds provide relief, rehabilitation, and reconstruction assistance to foreign countries struck by disasters, such as famines, floods, hurricanes and earthquakes. This account also provides assistance in disaster preparedness, and prevention and mitigation.

Child Survival and Disease

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

Central America and the Caribbean Emergency Disaster Recovery Fund

This account was established by a FY 1999 emergency supplemental bill and is for necessary expenses to provide relief and reconstruction after natural disasters in Central America, South America, and Colombia.

Transition Initiatives

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

Direct and Guaranteed Loans

- **Direct Loan** - These loans are authorized under Foreign Assistance Acts, various predecessor agency programs, and other foreign assistance legislation. Direct Loans are issued in both U.S. dollars and the currency of the borrower. Foreign currency loans made "with maintenance of value" place the risk of currency devaluation on the borrower, and are recorded in equivalent U.S. dollars. Loans made "without maintenance of value" place the risk of devaluation on the U.S. Government, and are recorded in the foreign currency of the borrower.
- **Urban and Environmental** - The Urban and Environmental (UE) program, formerly the Housing Guarantee Program, extends guaranties to U.S. private investors who make loans to developing countries to assist them in formulating and executing sound housing and community development policies that meet the needs of lower income groups.
- **Micro and Small Enterprise Development** - The Micro and Small Enterprise Development (MSED) Program supports private sector activities in developing countries by providing direct loans and loan guarantees to support local micro and small enterprises.
- **Israeli Loan Guarantee** - Congress enacted the Israeli Loan Guarantee Program in Section 226 of the Foreign Assistance Act to support the costs for immigrants resettling in Israel from the former Soviet Union, Ethiopia, and other countries. Under this program, the U.S. Government guaranteed the repayment of up to $10 billion in loans from commercial sources, to be borrowed in $2 billion annual increments. Borrowing was completed under the program during Fiscal Year 1999, with approximately $9.2 billion being guaranteed. Guarantees are made by USAID on behalf of the U.S. Government, with funding responsibility and basic administrative functions resting with USAID.
- **Ukraine Loan Guarantee** - The Ukraine Export Credit Insurance Program was established with the support of the Export-Import Bank of

the United States to assist Ukrainian importers of American goods. The program commenced operations in Fiscal Year 1996 and expired in Fiscal Year 1999.

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

Fund Types

The accompanying consolidated financial statements for USAID include the accounts of all funds under USAID's control. The Agency maintains 28 general fund appropriations, one special fund, 13 revolving funds, three trust funds, and five deposit funds, two receipt accounts, and four budget clearing accounts.

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

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

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

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

C. Basis of Accounting

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

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

D. Budgets and Budgetary Accounting

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

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

Pursuant to Sections 511 or 517 of USAID's Appropriations Acts, 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, multi-year, and no-year appropriations—that may be used within statutory limits. Appropriations are recognized as revenues at the time the related program or administrative expenses are incurred. Appropriations expended for capitalized property and equipment are not recognized as expenses. In addition to funds warranted directly to USAID, the Agency also receives allocation transfers from the Commodity Credit Corporation and the Department of State.

Additional financing sources for USAID's various credit programs and trust funds include amounts obtained through collection of guaranty fees, interest income on rescheduled loans, penalty interest on delinquent balances, permanent indefinite borrowing authority from 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, which are used to disburse loans in certain countries. Those balances are reported at the U.S. dollar equivalents using the exchange rates prescribed by the U.S. Treasury. A gain or loss on translation is recognized for the change in valuation of foreign currencies at year-end.

H. Accounts Receivable

Accounts receivable consist of amounts due mainly from foreign governments but also from other Federal agencies and private organizations. USAID regards amounts due from other Federal agencies as 100 percent collectible. The Agency establishes an allowance for uncollectible accounts receivable for non-loan or revenue generating sources that have not been collected for a period of over one year.

I. Loans Receivable

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

For loans obligated on/after October 1, 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 re-estimated when necessary and changes 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" (MOV). Those with MOV place the currency exchange risk upon the borrowing government; those without MOV place the risk on USAID. Foreign currency exchange gain or loss is recognized on those loans extended without MOV, and reflected in the net credit programs receivable balance.

Credit program receivables also include origination and annual fees on outstanding guarantees, interest on rescheduled loans and late charges. Claims receivables (subrogated and rescheduled) are due from foreign governments as a result of defaults for 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 actions of other U.S. Government agencies.

J. Advances and Prepayments

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

K. Inventory and Related Property

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

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

L. Property, Plant and Equipment

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

M. Liabilities

Liabilities represent the amount of monies or other resources that are likely to be paid by USAID as the result of transactions or events that have already occurred. However, no liability can be paid by the Agency without an appropriation or borrowing authority. Liabilities for which an appropriation has not been enacted are therefore classified as liabilities not covered by budgetary resources (unfunded liabilities), and there is no certainty that the appropriations will be enacted. Also, these liabilities can be abrogated by the U.S. Government, acting in its sovereign capacity.

N. Liabilities for Loan Guarantees

The Credit Reform Act (CRA) of 1990, which became effective on October 1, 1991, has significantly changed the manner in which USAID's loan programs finance their activities. The main purpose of CRA was to more accurately measure the cost of Federal credit programs and to place the cost of such programs on a basis equivalent to other Federal spending. Consequently, commencing in FY 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 CRA, liabilities for loan guarantees for pre-1992 loans represent unfunded liabilities. Footnote 5 presents the unfunded amounts separate 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 that is similar to OMB prescribed method for post-1991 loan guarantees.

O. Annual, Sick, and Other Leave

Annual leave is accrued as it is earned and the accrual is reduced as leave is taken. Each year, the balance in the accrued annual leave account is adjusted to reflect current pay rates. To the extent that current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources. Sick leave and other types of leave are expensed as taken.

P. Retirement Plans and Post Employment Benefits

USAID employees are covered by one of four retirement plans. There are two Civil Service plans, the Civil Service Retirement System (CSRS) and Federal Employees Retirement System (FERS); and two Foreign Service plans, the Foreign Service Retirement and Disability System (FSRDS) and Foreign Services Pension System (FSPS).

The Agency contributes approximately 7.5 percent of an employee's gross salary for CSRS and FSRDS, and approximately 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 12 percent, but not to exceed $11,000, of gross earnings withheld from their salaries and receive matching contributions from a minimum of one percent to a maximum of 5 percent. CSRS and FSRDS employees may elect to have up to 7 percent of gross earnings withheld from their salaries, but they do not receive matching contributions.

USAID funds a portion of employee post employment benefits (PEB) 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 PEB costs with the unfunded portion being charged to Other Revenue Sources-Imputed Financing in accordance with SFFAS Numbers 5 and 7.

Foreign Service National and Third County Nationals at overseas posts who were hired prior to January 1, 1984, may be covered under CSRS. Employees hired after that date are covered under a variety of local governmental 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 to prevailing practices by employers.

The Foreign Service National Separation Pay Trust Fund (FSNSPTF) was established in 1991 by Public Law 102-138 to finance separation payments for eligible individuals, primarily Foreign Service Nationals employed by USAID. The FSNSPTF finances separation liabilities to employees who resign, retire, or lose their jobs due to a reduction-in-force; and is applicable only in those countries that, due to 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 the portion of the appropriations represented by undelivered orders and unobligated balances.

Cumulative results of operations are also part of net position. This account reflects the net difference between (1) expenses and losses and (2) financing sources, including appropriations, revenues and gains, since the inception of the activity.

R. Non-entity Assets

Non-entity fund balances are amounts in Deposit Fund accounts. These include such items as: funds received from outside sources where the government acts as fiscal agent; monies the government has withheld awaiting distribution based on legal determination; and unidentified remittances credited as suspense items outside the budget. For USAID, non-entity assets are minimal in amount and as reflected in Note 3, comprised solely of accounts receivables, net of allowances.

S. Program Costs

Program costs are presented on the Statement of Net Cost by Agency goal. The six Agency goals that support USAID objectives are:

- Broad-based economic growth and agricultural development encouraged
- Basic education improved
- Global environment protected
- World population stabilized and human health protected
- Democracy and good governance strengthened
- Lives saved, suffering associated with natural or man-made disasters reduced, and conditions necessary for political and/or economic development reestablished

Mission-related program expenses by goal area are obtained from the Mission Accounting and Control system (MACS). USAID/Washington program expenses by goal area are obtained directly from Phoenix. A cost allocation model is used to distribute Management Bureau operating costs to specific goals. Expenses related to Credit Reform and revolving funds are directly applied to specific Agency goals based on their objectives. Trust funds and remaining operating expenses are allocated based on established program and operating ratios.

NOTE 2. FUND BALANCES WITH TREASURY (In Thousands)

Fund Balances With Treasury (In Thousands)

Fund Balances with Treasury as of September 30, 2002 and 2001 consisted of the following:

Fund Balances:	2002	2001
Trust Funds	$17,631	$14,429
Revolving Funds	948,819	1,012,026
Appropriated Funds	10,947,817	10,245,763
Other Funds	(16,295)	(57,811)
Total	**$11,897,972**	**$11,214,407**

Status of Fund Balances:	2002	2001
Unobligated Balance		
Available	$2,264,796	$2,499,633
Unavailable	14,487	13,679
Obligated Balance Not Yet Disbursed	9,618,689	8,701,095
Total	**$11,897,972**	**$11,214,407**

As of September 30, 2002 there was a cash reconciliation difference of $45.1 million between USAID and the Department of Treasury's Fund Balances. The difference as of September 30, 2001 was $38 million. For FY 2002 and FY 2001 reporting purposes, USAID adjusted its fund balance downward by these differences to equal the Department of Treasury's fund balance. By adjusting USAID's fund balance to equal Treasury's fund balance, there is consistency between various published reports. Also, based on past experience, the Department of Treasury's balances are more accurate and the differences are usually cleared when USAID processes the required disbursements.

The $45.1 million cash reconciliation difference was posted to separate Fund Balance sub-accounts and the cash differences remain identified as such. USAID is currently performing a reconciliation of the $45.1 million total amount in these accounts and will make adjustments accordingly.

NOTE 3. ACCOUNTS RECEIVABLE, NET (In Thousands)

Accounts Receivable, Net (In Thousands)

The primary components of USAID's accounts receivable as of September 30, 2002 and 2001 were as follows:

	Receivable Gross	Allowance Accounts	Receivable Net 2002	Receivable Net 2001
Entity				
Intragovernmental				
Appropriation Reimbursements from Federal Agencies	$334	N/A	$334	$202
Accounts Receivable from Federal Agencies	209	N/A	209	7,596
Disbursing Authority Receivable from USDA	495,826	N/A	495,826	415,779
Total Intragovernmental	496,369	N/A	496,369	423,577
Accounts Receivable	41,779	(11,987)	29,792	28,286
Total Entity	538,148	(11,987)	526,161	451,863
Total Non-Entity	3,683	(2,359)	1,324	2,731
Total Receivables	**$541,831**	**$(14,346)**	**$527,485**	**$454,594**

Reconciliation of Uncollectible Amounts (Allowance Accounts)

	2002	2001
Beginning Balance	$13,090	$11,463
Additions	4,444	1,954
Reductions	(3,188)	(327)
Ending Balance	**$14,346**	**$13,090**

Entity Intragovernmental accounts receivable consist of amounts due from other U.S. Government agencies. No allowance has been established for the intragovernmental accounts receivable, which are considered to be 100 percent collectible. Disbursing Authority Receivable from USDA consists of obligational authority from the U.S. Department of Agriculture's Commodity Credit Corporation. The authority is for payment of transportation costs incurred by USAID associated with the shipment of Title II and III commodities; Farmer-to-Farmer Technical Assistance Programs; and for assistance to private voluntary organizations, cooperatives, and international organizations. Collections against this receivable are realized when USAID requests a transfer of funds from USDA to cover incurred expenses.

All other entity accounts receivable consist of amounts managed by missions or USAID/Washington. These receivables consist of non-program related receivables such as overdue advances, unrecovered advances, audit findings, and any interest related to these types of receivables. A 100 percent allowance for uncollectible amounts is estimated for governmental accounts receivable which are more that one year past due. Accounts receivable from missions are collected and recorded to the respective appropriation.

Interest receivable is calculated separately and there is no interest included in the accounts receivable listed above.

NOTE 4. ADVANCES AND PREPAYMENTS (In Thousands)

Advances and Prepayments (In Thousands)

Advances and Prepayments as of September 30, 2002 and 2001 consisted of the following:

	2002	2001
Intragovernmental		
Advances to Federal Agencies	$46,527	$76,838
Total Intragovernmental	46,527	76,838
Advances to Contractors/Grantees	252,639	190,000
Travel Advances	2,240	3,920
Advances to Host Country Governments and Institutions	53,988	42,071
Prepayments	7,932	20,627
Advances, Other	12,963	13,619
Total Advances and Prepayments	**$376,289**	**$347,075**

Advances to Host Country Governments and Institutions represent amounts advanced by USAID missions to host country governments and other in-country organizations, such as educational institutions and voluntary organizations. Other Advances consist primarily of amounts advanced for living quarters and home service.

NOTE 5. CASH AND OTHER MONETARY ASSETS (In Thousands)

USAID has imprest funds in various overseas locations. These funds are provided by the Department of State overseas U.S. Disbursing Officers to which USAID is liable for any shortages. USAID's portion of the Department of State imprest funds provided to USAID was $4.1 million in FY 2002 and $3.8 million in FY 2001. These imprest funds are not included in USAID's Balance Sheet.

Cash and Other Monetary Assets (In Thousands)

Cash and Other Monetary Assets as of September 30, 2002 and 2001 are as follows:

Cash and Other Monetary Assets	2002	2001
Imprest Fund-Headquarters	0	10
UE and Micro and Small Enterprise Fund Cash w/Fiscal Agent	50	50
Foreign Currencies	262,038	213,117
Total Cash and Other Monetary Assets	**262,088**	**213,177**

Foreign Currencies are related to Foreign Currency Trust Funds and this amounted to $262 million in FY 2002 and $213 million in FY 2001. USAID does not have any non-entity cash or other monetary assets.

NOTE 6. LOANS RECEIVABLE AND LIABILITIES FOR LOAN GUARANTEES (In Thousands)

USAID operates the following loan and/or loan guarantee programs:

Direct Loan Program (Direct Loan)

Urban and Environmental Program (UE)

Micro and Small Enterprise Development Program (MSED)

Ukraine Export Insurance Credit Program (Ukraine)

Israeli Loan Guarantee Program (Israeli Loan)

Development Credit Authority Program (DCA)

Direct loans resulting from obligations made prior to FY 1992 are reported net of allowance for estimated uncollectible loans. Estimated losses from defaults on loan guarantees resulting from obligations made prior to FY 1992 are reported as a liability.

The Credit Reform Act of 1990 prescribes an alternative method of accounting for direct loans and guarantees resulting from obligations made after FY 1991. Subsidy cost, which is the net present value of the cash flows (i.e., interest rates, interest supplements, estimated defaults, fees, and other cash flows) associated with direct loans and guarantees, is required by the Act to be recognized as an expense in the year in which the direct loan or guarantee is disbursed. Subsidy cost is calculated by agency program offices prior to obligation using a model prescribed by the Office of Management and Budget (OMB). Subsidy relating to existing loans and guarantees is generally required to be reestimated on an annual basis to adjust for changes in risk and interest rate assumptions. Direct loans are reported net of an allowance for this subsidy cost (allowance for subsidy). The subsidy costs associated with loan guarantees are reported as loan guarantee liability.

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

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

NOTE 6. LOANS RECEIVABLE AND LIABILITIES FOR LOAN GUARANTEES (In Thousands) (Continued).

Loans Receivable and Liabilities for Loan Guarantees (In Thousands)

Direct Loans:

Direct Loans Obligated Prior to FY 1992 (Allowance for Loss Method) as of September 30, 2002:

Loan Programs	Loans Receivable Gross	Interest Receivable	Allowance For Loan Losses	Value of Assets Related to Direct Loans
Direct Loan	$8,843,329	$350,800	$3,428,309	$5,765,820
MSED	1,386	83	1,838	(369)
Total	**$8,844,715**	**$350,883**	**$3,430,147**	**$5,765,451**

Direct Loans Obligated Prior to FY 1992 (Allowance for Loss Method) as of September 30, 2001:

Loan Programs	Loans Receivable Gross	Interest Receivable	Allowance For Loan Losses	Value of Assets Related to Direct Loans
Direct Loan	$9,390,950	$348,328	$4,398,560	$5,340,718
MSED	1,488	74	2,280	(718)
Total	**$9,392,438**	**$348,402**	**$4,400,840**	**$5,340,000**

Direct Loans Obligated After FY 1991 as of September 30, 2002:

Loan Programs	Loans Receivable Gross	Interest Receivable	Allowance For Loan Losses	Value of Assets Related to Direct Loans
Direct Loan	$120,667	$ -	$186,673	$(66,006)
MSED	311	25	468	(131)
Total	**$120,979**	**$25**	**$187,141**	**$(66,137)**

Direct Loans Obligated After FY 1991 as of September 30, 2001:

Loan Programs	Loans Receivable Gross	Interest Receivable	Allowance For Loan Losses	Value of Assets Related to Direct Loans
Direct Loan	$176,058	$ -	$180,622	$(4,564)
MSED	657	35	468	224
Total	**$176,715**	**$35**	**$181,089**	**$(4,340)**

NOTE 6. LOANS RECEIVABLE AND LIABILITIES FOR LOAN GUARANTEES (In Thousands) (Continued).

Loans Receivable and Liabilities for Loan Guarantees (In Thousands)

Total Amount of Direct Loans Disbursed:

Direct Loan Programs	2002	2001
Direct Loan	$8,963,997	$9,567,008
MSED	1,697	2,144
Total	**$8,965,694**	**$9,569,152**

Subsidy Expense for Direct Loans by Program and Component: Modifications and Reestimates (FY 2002)

Direct Loan Programs	Total Modification	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Direct Loan	$ -	$ -	$(3,618)	$(3,618)
Total	**$ -**	**$ -**	**$(3,618)**	**$(3,618)**

Modifications and Reestimates (FY 2001)

Direct Loan Programs	Total Modification	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Direct Loan	$ -	$ -	$ -	$ -
Total	**$ -**	**$ -**	**$ -**	**$ -**

Total Direct Loan Subsidy Expense

Direct Loan Programs	2002	2001
Direct Loan	$(3,618)	$ -
Total	**$(3,618)**	**$ -**

NOTE 6. LOANS RECEIVABLE AND LIABILITIES FOR LOAN GUARANTEES (In Thousands) (Continued).

Loans Receivable and Liabilities for Loan Guarantees (In Thousands)

Schedule for Reconciling Subsidy Cost Allowance Balances (Post-1991 Direct Loans):

	2002		
	Direct Loan	MSED	Total
Beginning Balance, Changes, and Ending Balance			
Beginning balance of the subsidy cost allowance	$180,622	$468	$181,089
Add: subsidy expense for direct loans disbursed during the reporting years by component:			
(a) Interest rate differential costs			
(b) Default costs (net of recoveries)			
(c) Fees and other collections			
(d) Other subsidy costs			
Total of the above subsidy expense components			
Adjustments:			
(a) Loan modifications	$6,627		$6,627
(b) Fees received			
(c) Foreclosed property acquired			
(d) Loans written off	(6,343)		(6,343)
(e) Subsidy allowance amortization	672		267
(f) Other	5,500		5,500
Ending balance of the subsidy cost allowance before reestimates	$186,673	$468	$187,141
Add or subtract subsidy reestimates by component:			
(a) Interest rate reestimate			
(b) Technical/default reestimate			
Total of the above reestimate components			
Ending balance of the subsidy cost allowance	**$186,673**	**$468**	**$187,141**

Schedule for Reconciling Subsidy Cost Allowance Balances (Post-1991 Direct Loans):

	2001		
	Direct Loan	MSED	Total
Beginning Balance, Changes, and Ending Balance	$162,471	$347	$162,817
Beginning balance of the subsidy cost allowance			
Add: subsidy expense for direct loans disbursed during the reporting years by component:			
(a) Interest rate differential costs			
(b) Default costs (net of recoveries)			
(c) Fees and other collections			
(d) Other subsidy costs			
Total of the above subsidy expense components			
Adjustments:			
(a) Loan modifications	$20,967		$20,967
(b) Fees received			
(c) Foreclosed property acquired			
(d) Loans written off			
(e) Subsidy allowance amortization	(5,537)	121	(5,415)
(f) Other	2,721		2,721
Ending balance of the subsidy cost allowance before reestimates	$180,622	$468	$181,089
Add or subtract subsidy rees			
(a) Interest rate reestimate			
(b) Technical/default reestimate			
Total of the above reestimate components			
Ending balance of the subsidy cost allowance	**$180,622**	**$468**	**$181,089**

NOTE 6. LOANS RECEIVABLE AND LIABILITIES FOR LOAN GUARANTEES (In Thousands) (Continued).

Loans Receivable and Liabilities for Loan Guarantees (In Thousands)

Defaulted Guaranteed Loans:

Defaulted Guaranteed Loans from Pre-1992 Guarantees (Allowance for Loss Method) FY 2002:

Loan Guarantee Programs	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance For Loan Losses	Value of Assets Related to Defaulted Guaranteed Loans Receivable, Nets
UE	$442,358	$70,485	$214,705	$298,139
Total	$442,358	$70,485	$214,705	$298,139

Defaulted Guaranteed Loans from Pre-1992 Guarantees (Allowance for Loss Method) FY 2001:

Loan Guarantee Programs	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance For Loan Losses	Value of Assets Related to Defaulted Guaranteed Loans Receivable, Nets
UE	$425,258	$47,587	$275,336	$197,509
Total	$425,258	$47,587	$275,336	$197,509

Defaulted Guaranteed Loans from Post-1991 Guarantees

In FY 2002, the UE Program experienced $6.5 million in defaults on payments, and the DCA Program experienced $.25 million in defaults on payments on post-1991 guaranteed loans.

In FY 2001, the UE Program experienced $2.9 million in defaults on payments on post-1991 guaranteed loans.

Guaranteed Loans Outstanding:

Guaranteed Loans Outstanding (FY 2002):

Loan Guarantee Programs	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
UE	$ 2,093,798	$ 2,093,798
MSED	115,700	58,150
Israel	9,206,027	9,206,027
DCA	297,620	106,110
Total	$11,713,145	$11,464,085

NOTE 6. LOANS RECEIVABLE AND LIABILITIES FOR LOAN GUARANTEES (In Thousands) (Continued).

Loans Receivable and Liabilities for Loan Guarantees (In Thousands)

Guaranteed Loans Outstanding (FY 2001):

Loan Guarantee Programs	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
UE	$ 2,160,006	$ 2,160,006
MSED	118,650	59,325
Israel	9,226,200	9,226,200
DCA	135,750	63,025
Total	**$11,640,606**	**$11,508,556**

New Guaranteed Loans Disbursed (FY 2002):

Loan Guarantee Programs	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
UE	$21,500	$21,500
MSED	9,000	4,500
DCA	38,420	19,210
Total	**$68,920**	**$45,210**

New Guaranteed Loans Disbursed (FY 2001):

Loan Guarantee Programs	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
DCA	$23,156	$11,578
Total	**$23,156**	**$11,578**

NOTE 6. LOANS RECEIVABLE AND LIABILITIES FOR LOAN GUARANTEES (In Thousands) (Continued).

Loans Receivable and Liabilities for Loan Guarantees (In Thousands)

Liability for Loan Guarantees (Estimated Future Default Claims for pre-1992 guarantees) as of September 30, 2002:

Loan Guarantee Programs	Liabilities for Losses on Pre-1992 Guarantees, Estimated Future Default Claims	Liabilities for Loan Guarantees for Post-1991 Guarantees, Present Value	Total Liabilities for Loan Guarantees
UE	$328,083	$ 58,315	$ 386,399
MSED	-	(431)	(431)
Israel	-	665,267	665,267
DCA	-	(2,484)	(2,484)
Total	$328,083	$720,668	$1,048,751

Liability for Loan Guarantees (Estimated Future Default Claims for pre-1992 guarantees) as of September 30, 2001:

Loan Guarantee Programs	Liabilities for Losses on Pre-1992 Guarantees, Estimated Future Default Claims	Liabilities for Loan Guarantees for Post-1991 Guarantees, Present Value	Total Liabilities for Loan Guarantees
UE	$465,765	$ 74,945	$540,709
MSED	-	289	289
Israel	-	626,050	626,050
DCA	-	188	188
Total	$465,765	$701,471	$1,167,236

NOTE 6. LOANS RECEIVABLE AND LIABILITIES FOR LOAN GUARANTEES (In Thousands) (Continued).

Loans Receivable and Liabilities for Loan Guarantees (In Thousands)

Subsidy Expense for Loan Guarantees by Program and Component:

Subsidy Expense for New Loan Guarantees (FY 2002):

Loan Guarantee Programs	Interest Supplements	Defaults	Fees and Other Collections	Other	Total
UE	$ -	$1,613	$(114)	$ -	$1,499
DCA	-	1,125	(285)	-	839
Total	$ -	$2,737	$(399)	$ -	$2,338

Subsidy Expense for New Loan Guarantees (FY 2001):

Loan Guarantee Programs	Interest Supplements	Defaults	Fees and Other Collections	Other	Total
DCA	$ -	$1,021	$(321)	$ -	$700
Total	$ -	$1,021	$(321)	$ -	$700

Modifications and Reestimates (FY 2002):

Loan Guarantee Programs	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
UE	$ -	$ 2,080	$7,257	$ 9,337
DCA	-	(1,324)	2,078	754
Total	$ -	$ 756	$9,335	$10,091

Modifications and Reestimates (FY 2001):

Loan Guarantee Programs	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
UE	$ -	$ 612	$3,538	$4,150
DCA	-	1,470	(963)	508
Total	$ -	$2,083	$2,575	$4,658

NOTE 6. LOANS RECEIVABLE AND LIABILITIES FOR LOAN GUARANTEES (In Thousands) (Continued).

Loans Receivable and Liabilities for Loan Guarantees (In Thousands)

Total Loan Guarantee Subsidy Expense:

Loan Guarantee Programs	2002	2001
DCA	$ 839	$ 700
UE	10,835	4,150
MSED	754	508
Total	**$12,429**	**$5,358**

Loans Receivable and Liabilities for Loan Guarantees (In Thousands)

Subsidy rates for Loan Guarantees by Program and Component:
Budget Subsidy Rates for Loan Guarantees for the Current Year's Cohorts:

Loan Guarantee Programs	Interest Supplements (%)	Defaults (%)	Fees and Other Collections (%)	Other (%)	Total (%)
DCA	-	2.96%	(0.75)%	-	2.21%

Schedule for Reconciling Loan Guarantee Liability Balances

	2002					
(Post-1991 Loan Guarantees)	DCA	MSED	UE	Israel	Ukraine	Total
Beginning Balance, Changes, and Ending Balance						
Beginning balance of the loan guarantee liability	$ 212	$ 289	$ 74,945	$626,080	$ -	$701,495
Add: subsidy expense for guaranteed loans disbursed during the reporting years by component:						
(a) Interest supplement costs						
(b) Default costs (net of recoveries)	839	-	1,499			2,338
(c) Fees and other collections						
(d) Other subsidy costs	-	-	-			-
Total of the above subsidy expense components	$ 839	$ -	$ 1,499	$ -	$ -	$ 2,338
Adjustments:						
(a) Loan guarantee modifications						
(b) Fees received	-	-	2,673			2,673
(c) Interest supplements paid	-					
(d) Foreclosed property and loans acquired	-					
(e) Claim payments to lenders	(259)	(6,548)	(6,807)			
(f) Interest accumulation on the liability balance	118	5,241	39,217	44,576		
(g) Other	(558)	1,008	(4,405)			(3,956)
Ending balance of the loan guarantee liability before reestimates	$ 493	$ 1,156	$ 73,404	$665,267	$ -	$740,320
Add or subtract subsidy reestimates by component:						
(a) Interest rate reestimate	(1,428)	6,280	504	5,356		
(b) Technical/default reestimate	(1,548)	(7,867)	(15,593)			(25,008)
Total of the above reestimate components	$(2,977)	$(1,587)	$(15,089)	$ -	$ -	$ (19,652)
Ending balance of the loan guarantee liability	**$(2,484)**	**$ (431)**	**$ 58,315**	**$665,267**	**$ -**	**$720,668**

NOTE 6. LOANS RECEIVABLE AND LIABILITIES FOR LOAN GUARANTEES (In Thousands) (Continued).

Loans Receivable and Liabilities for Loan Guarantees (In Thousands)

Schedule for Reconciling Loan Guarantee Liability Balances

	2001					
(Post-1991 Loan Guarantees)	DCA	MSED	UE	Israel	Ukraine	Total
Beginning Balance, Changes, and Ending Balance						
Beginning balance of the loan guarantee liability	$ 103	$ 2,633	$65,507	$586,629	$ 32,104	$686,976
Add: subsidy expense for guaranteed loans disbursed during the reporting years by component:						
(a) Interest supplement costs						
(b) Default costs (net of recoveries)						
(c) Fees and other collections						
(d) Other subsidy costs	700	700				
Total of the above subsidy expense components	$ 700	$ -	$ -	$ -	$ -	$ 700
Adjustments:						
(a) Loan guarantee modifications						
(b) Fees received	159	201	2,499	2,860		
(c) Interest supplements paid	-					
(d) Foreclosed property and loans acquired	-					
(e) Claim payments to lenders	(2,935)	(2,935)				
(f) Interest accumulation on the liability balance	19	4,919	39,421	2,189	46,549	
(g) Other	(0)	(2,038)	9,262	7,223		
Ending balance of the loan guarantee liability before reestimates	$ 962	$ 815	$79,253	$626,050	$ 34,293	$741,373
Add or subtract subsidy reestimates by component:						
(a) Interest rate reestimate	1,690	(15,484)	(8,936)	(22,730)		
(b) Technical/default reestimate	(750)	(2,216)	11,176	(25,357)	(17,147)	
Total of the above reestimate components	$ (750)	$ (526)	$ (4,308)	$ -	$(34,293)	$ (39,878)
Ending balance of the loan guarantee liability	**$ 212**	**$ 289**	**$74,945**	**$626,050**	**$ -**	**$701,495**

Loans Receivable and Liabilities for Loan Guarantees (In Thousands)

Administrative Expense

Loan Programs	2002	2001
DCA	$3,066	$3,083
UE	1,156	548
MSED	2,482	714
Total	**$6,704**	**$4,345**

NOTE 6. LOANS RECEIVABLE AND LIABILITIES FOR LOAN GUARANTEES (In Thousands) (Continued).

Other Information

1 Allowance for Loss for Liquidating account (pre-Credit Reform Act) receivables have been calculated in accordance with OMB guidance using a present value method which assigns risk ratings to receivables based upon the country of debtor. Thirteen countries are in violation of Section 620q of the Foreign Assistance Act (FAA), owing $87.2 million that is more than six months delinquent. Eleven countries are in violation of the Brooke-Alexander Amendment to the Foreign Operations Export Financing and Related Programs Appropriations Act, owing $486 million that is more than one year delinquent. Outstanding direct loans receivable for countries in violation of Section 620q totaled $76.5 million. Outstanding direct loans receivable for countries in violation of the Brooke Amendment totaled $432.9 million.

2 The MSED Liquidating Account general ledger has a loan receivable balance of $1.4 million. This includes two loans pending closure. These loans are being carried at 100% bad debt allowance.

3 The Ukraine program guarantees have expired, and the Ukraine Financing Account was closed out in FY 2002.

4 For FY 2002, USAID used a net present value model, pursuant to OMB guidance, to calculate liquidating fund bad debt accruals. The FY 2002 accruals derived from this model , and the resulting allowance balances, are as follows:

Program Allowance	2002 Accrual	2002 Balance
Direct Loan Program loans receivable	$(869,853)	$3,184,474
UE Program estimated loan guarantee defaults	$(182,027)	$ 328,083

Because this model was not available in FY 2001, an alternative methodology was used. Had this model been available, the FY 2001 allowances would have been as follows:

Program Allowance	2001 Balance
Direct Loan Program loans receivable	$2,992,102
UE Program estimated loan guarantee defaults	$ 308,642

NOTE 7. INVENTORY AND RELATED PROPERTY (In Thousands)

Inventory and Related Property (In Thousands)

USAID's Inventory and Related Property is comprised of Operating Materials and Supplies. Operating Materials and Supplies as of September 30, 2002 and 2001 are as follows:

	2002	2001
Items Held for Use		
Office Supplies	$8,691	$7,225
Items Held in Reserve for Future Use		
Diaster assistance materials and supplies	5,909	7,478
Birth control supplies	5,641	11,396
Total	$20,241	$26,099

Operating Materials and Supplies are valued at historical cost and considered not held for sale.

NOTE 8. GENERAL PROPERTY, PLANT AND EQUIPMENT, NET (In Thousands)

USAID PP&E includes assets located in Washington, D.C. offices and overseas field missions.

For FY 2002, USAID capitalization criteria for assets was $25,000 except for internal use software. The capitalization criteria for internal use software was $300,000. Assets meeting these criteria are depreciated using the half-year straight line depreciation method.

Equipment consists primarily of electric generators, ADP hardware, vehicles and copiers located at the overseas field missions.

Structures and Facilities include USAID owned office buildings and residences at foreign missions, including the land on which these structures reside. These structures are used and maintained by the field missions. USAID does not separately report the cost of the building and the land on which the building resides.

Land consists of property owned by USAID in foreign countries. Usually the land is purchased with the intention of constructing an office building at the site.

General Property, Plant and Equipment, Net (In Thousands)

The components of PP&E at September 30, 2002 were:

	Useful Life	Cost	Accumulated Depreciation	Net Book Value
Classes of Fixed Assets				
Equipment	3 to 5 years	$40,631	$(27,988)	$12,643
Buildings, Improvements, & Renovations	20 years	41,557	(18,671)	22,886
Land and Land Rights	N/A	4,056	-	4,056
Assets Under Capital Lease		7,081	(958)	6,123
Construction in Progress	N/A	647	-	647
Internal Use Software	5 years	10,526	(2,432)	8,094
Total		**$104,498**	**$(50,049)**	**$54,449**

The components of PP&E at September 30, 2001 were:

	Useful Life	Cost	Accumulated Depreciation	Net Book Value
Classes of Fixed Assets				
Equipment	3 to 5 years	$37,390	$(25,912)	$11,478
Buildings, Improvements, & Renovations	20 years	37,060	(15,887)	21,173
Land and Land Rights	N/A	4,056	-	4,056
Assets Under Capital Lease		3,399	(424)	2,975
Construction in Progress	N/A	-	-	-
Internal Use Software	5 years	6,323	(632)	5,691
Total		**$88,228**	**$(42,855)**	**$45,373**

NOTE 9. LEASES (In Thousands)

Leases (In Thousands)

Leases as of September 30, 2002 and 2001 consisted of the following:
Entity as Lessee:

Capital Leases:	2002	2001
Summary of Assets Under Capital Lease:		
Buildings	$7,081	$3,399
Accumulated Depreciation	958	424
Future Payments Due:		
Fiscal Year	Future Costs	Future Costs
2002	N/A	$2,411
2003	$1,185	1,185
2004	567	567
2005	144	144
2006 -	-	-
2007 -	-	N/A
After 5 Years	-	
Net Capital Lease Liability	**$1,896**	**$4,307**
Lease Liabilities Covered by Budgetary Resources	$1,896	$4,307
Lease Liabilities Not Covered by Budgetary Resources	-	-

The capital lease liability is reported on USAID's Balance Sheet under Other Liabilities.

Operating Leases:	2002	2001
Future Payments Due:		
Fiscal Year	Future Costs	Future Costs
2002	N/A	$70,090
2003	$70,470	65,182
2004	66,525	62,977
2005	64,486	58,538
2006	59,155	57,006
2007	58,091	N/A
After 5 Years	254,747	184,754
Total Future Lease Payments	**$573,474**	**$498,547**

Of the $573 million in future lease payments, $421 million is attributable to the Ronald Reagan Building in Washington D.C., USAID's headquarters. This building is leased by the General Services Administration (GSA). USAID is charged rent intended to approximate commercial rental rates. Lease payments for FY 2002 and 2001 amounted to $33 million and $32.8 million respectively. An approximate increase of 9.8% will take effect in FY 2003. The remaining $152 million relates to other USAID Washington activity and mission related operating leases.

NOTE 10. ACCOUNTS PAYABLE (In Thousands)

Accounts Payable (In Thousands)

The Accounts Payable covered by budgetary resources as of September 30, 2002 and 2001 consisted of the following:

	2002	2001
Intragrovernmental		
Accounts Payable	$69,572	$35,496
Disbursements in Transit	-	-
Total Intragovernmental	$69,572	$35,496
Accounts Payable	1,101,961	1,160,263
Disbursements in Transit	-	11
Total Advances and Prepayments	**$1,171,533**	**$1,195,770**

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

All other Accounts Payable represent liabilities to other non-federal entities

NOTE 11. DEBT (In Thousands)

Pursuant to the Credit Reform Act of 1990, agencies with credit programs have permanent indefinite authority to borrow funds from the Treasury. These funds are used to disburse new direct loans to the public and, in certain situations, to cover credit reform program costs. Liquidating (pre-1992) accounts have permanent indefinite borrowing authority to be used to cover program costs when they exceed account resources. UE Program debt includes amounts borrowed before the effective date of the Credit Reform Act of 1990.

Debt (In Thousands)

USAID Intragovernmental debt as of September 30, 2002 and 2001 consisted of the following borrowings from Treasury for post-1991 loan programs, which is classified as other debt:

	2001 Beginning Balance	Net Borrowing	2001 Ending Balance	Net Borrowing	2002 Ending Balance
Urban & Environmental	$ -	$ -	$ -	$ -	$ -
Direct Loan	114,772	(51,957)	62,815	(47,255)	15,560
MSED	1,713	-	1,713	(529)	1,184
Total Debt	**$116,485**	**$(51,957)**	**$64,528**	**$(47,784)**	**$16,744**

The above disclosed debt is principal payable to Treasury, which represents financing account borrowings from the Treasury under the Credit Reform Act. In addition, there is net liquidating account equity in the amount of $5.9 billion, which under the Credit Reform Act is required to be recorded as Due to Treasury. Both of these accounts are used exclusively for credit reform activity. All debt shown is intragovernmental debt.

NOTE 12. OTHER LIABILITIES (In Thousands)

Other Liabilities (In Thousands)

As of September 30, 2002 and 2001 Other Liabilities consisted of the following:

	2002	2001
Intragovernmental		
OPAC Suspense	$ (2,901)	$(35,876)
Deposit and Clearing Accounts	2,030	3,578
Unfunded FECA Liability	6,421	7,416
Other	44,703	55,754
Total Intragovernmental	$ 50,253	$30,872
Accrued Funded Payroll/Benefits	$ 4,841	$11,746
Deferred Credit	1,692	1,793
Liability for Deposit Funds and Suspense Accounts - Non-Entity	3,044	(100)
Foreign Currency Trust Fund	262,038	213,116
Trust Fund Balances	17,424	14,388
Unfunded Leave	26,696	25,490
Capital Lease Liability	1,896	-
Other	4	4
Total Other Liabilities	**$367,888**	**$297,309**

All liabilities are current. Intragovernmental Liabilities represent amounts due to other federal agencies. All remaining Other Liabilities are liabilities to non-federal entities.

NOTE 13. ACCRUED UNFUNDED ANNUAL LEAVE AND SEPARATION PAY (In Thousands)

Accrued Unfunded Annual Leave and Separation Pay (In Thousands)

Accrued unfunded benefits for annual leave and separation pay as of September 30, 2002 and 2001 are:

	2002	2001
Liabilities Not Covered by Budgetary Resources		
Accrued Annual Leave	$26,291	$25,485
FSN Separation Pay Liability	405	5
Total Accrued Unfunded Annual Leave and Separation Pay	**$26,696**	**$24,490**

NOTE 14. ACCRUED UNFUNDED WORKERS' COMPENSATION BENEFITS (In Thousands)

The Federal Employees Compensation Act (FECA) program is administered by the U.S. Department of Labor (DOL) and provides income and medical cost protection to covered Federal civilian employees who have been injured on the job or have incurred a work-related occupational disease. Compensation is given to beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. DOL initially pays valid FECA claims for all Federal government agencies and seeks reimbursement two fiscal years later from the Federal agencies employing the claimants.

Accrued Unfunded Workers' Compsensation Benefits (In Thousands)

The provision for workers' compensation benefits payable, as of September 30, 2002 and 2001 are as follows:

	2002	2001
Liabilities Not Covered by Budgetary Resources		
Accrued Unfunded Workers' Compensation	$ 6,421	$ 7,416
Future Workers' Compensation Benefits	28,251	30,905
Total Accrued Unfunded Workers' Compensation Benefits	$34,672	$38,321

USAID's total FECA liability is $34.7 million as of September 30, 2002 and comprises unpaid FECA billings for $6.4 million and estimated future FECA costs of $28.3 million.

For FY 2001, USAID's total FECA liability was $38.3 million and was comprised of unpaid FECA billings for $7.4 million and estimated future FECA costs of $30.9 million.

Estimated future FECA costs are determined by the Department of Labor. This liability is determined using a paid losses extrapolation method calculated over a 37-year period. This method utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. These annual benefit payments have been discounted to present value. The interest rate assumptions used for discounting were 5.50% in year 1 and year 2, 5.55% in year 3, and 5.60% in year 4 and thereafter.

The decrease of $2.6 million for Future Workers' Compensation Benefits is shown as a financing source yet to be provided on the Statement of Financing.

NOTE 15. COMMITMENTS AND CONTINGENCIES

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

USAID is involved in a group of cases before the U.S. Court of Federal Claims which disputes appropriate indirect cost rates to be charged where contract rates do not match Negotiated Indirect Cost Rate Agreement (NICRA) rates. It is reasonably possible that USAID might lose this case. Any adverse judgment would likely be paid out of the Department of Treasury's Judgment Fund, but then be reimbursed by the Agency. In this case the amounts claimed are $2.2 million, exclusive of Equal Access to Justice Fees. To date, discovery has officially concluded on one of the cases in this group. Agreement was not reached during settlement discussions, and dispositive motions were filed by both parties. The Court entered summary judgment in favor of the Government. The Government expects the plaintiff to appeal the lower court's ruling to the Federal Circuit.

USAID settled a case before the Armed Service Board of Contract Appeals to dispute a matter related to fair opportunity to compete an indefinite quantity, multiple award, task order contract for advisory services, technical assistance, and training in the area of sustainable urban management.

NOTE 16. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES (In Thousands)

Liabilities Not Covered By Budgetary Resources (In Thousands)

Liabilities not covered by budgetary resources as of September 30, 2002 and 2001 are as follows:

	2002	2001
Contingent Liabilities for Loan Guarantees	$ 328,083	$ 465,765
Accrued Unfunded Annual Leave and Separation Pay	26,696	25,490
Accrued Unfunded Workers Compensation Benefits	34,672	38,321
Total Liabilities not covered by Budgetary Resources	$ 389,451	$ 529,576
Total Liabilities covered by Budgetary Resources	8,102,891	7,504,634
Total Liabilities	**$8,492,342**	**$8,034,210**

All liabilities not covered by Budgetary Resources are non-federal liabilities.

NOTE 17. TOTAL COST AND EARNED REVENUE BY BUDGET FUNCTIONAL CLASSIFICATION (In Thousands)

Total Cost And Earned Revenue By Budget Functional Classification (In Thousands)

Total Cost and Earned Revenue by Budget Functional Classification, as of September 30, 2002 are as follows:

Function Classification	Gross Cost	Earned Revenue	Net Cost
International Development and Humanitarian Assistance- 151	$5,176,694	$ (81,359)	$5,095,335
International Security Assistance- 152	2,935,308	(158,914)	2,776,394
Conduct of Foreign Affairs- 153	44,880	-	44,880
Federal Employee Retirement and Disability- 602	750	-	750
Total	$8,157,632	$(240,273)	$7,917,359

Total Cost and Earned Revenue by Budget Functional Classification, as of September 30, 2001 are as follows:

Function Classification	Gross Cost	Earned Revenue	Net Cost
International Development and Humanitarian Assistance- 151	$4,722,391	$(81,653)	$4,640,738
International Security Assistance- 152	2,302,752	(350)	2,302,402
Conduct of Foreign Affairs- 153	44,489	-	44,489
Federal Employee Retirement and Disability- 602	1,906	-	1,906
Total	$7,071,538	$(82,003)	$6,989,535

Intragrovernmental Cost and Earned Revenue by Budget Functional Classification, as of September 30, 2002 are as follows:

Function Classification	Gross Cost	Earned Revenue	Net Cost
International Development and Humanitarian Assistance- 151	$381,943	$ (63,762)	$318,181
International Security Assistance- 152	34,196	(152,988)	(118,792)
Conduct of Foreign Affairs- 153	44,880	-	44,880
Federal Employee Retirement and Disability- 602	-	-	-
Total	$461,019	$(216,750)	$244,269

Intragrovernmental Cost and Earned Revenue by Budget Functional Classification, as of September 30, 2001 are as follows:

Function Classification	Gross Cost	Earned Revenue	Net Cost
International Development and Humanitarian Assistance- 151	$254,050	$(25,724)	$228,326
International Security Assistance- 152	6,288	(350)	5,938
Conduct of Foreign Affairs- 153	44,489	-	44,489
Federal Employee Retirement and Disability- 602	-	-	-
Total	$304,827	$(26,074)	$278,753

NOTE 18. PRIOR PERIOD ADJUSTMENTS

Two prior period adjustments were made in FY 2002.

The Department of Treasury advised USAID and the Department of Agriculture on new guidelines for recording transfers from the Department of Agriculture's Commodity Credit Corporation. Since the transfer of funds is not a transfer of appropriated funds, the Unexpended Appropriation Net Position account 3100 should not be used. An adjustment of $483,707,031.18 for changes in accounting principles was made to reduce the Unexpended Appropriation balance via posting to account 3109 Unexpended Appropriations - Prior Year Adjustments and to account 7400 Prior Period Adjustment - Not Restated. This adjustment does not have an effect on the Agency's net position.

A credit adjustment of $190,041.25 was made during FY 2002 to the Micro and Small Enterprise Development financing fund to correct an equity posting error that occurred in FY 2001. This adjustment does not have a material effect on the Agency's net position.

Three prior period adjustments were made in FY 2001 involving credit program funds.

Reversals of accrued year-end FY 2000 re-estimated subsidy liabilities in the Micro and Small Enterprise Development program fund for $1,143,000 and also in the Urban and Environmental program fund for $9,897,000 were made. These amounts had already been closed to cumulative results of operations as part of the FY 2000 year-end closing process. FY 2001 adjustments for upward re-estimates of subsidy liability are reflected in year-end account balances for future funded expenses. Future funded expenses are closed to cumulative results of operations at year-end.

An adjustment for $242,211 was made to establish unfunded annual leave in the Development Credit Authority (DCA) program fund. In previous years, unfunded annual leave was recorded in the Urban and Environmental (UE) program fund.

NOTE 19. STATEMENT OF BUDGETARY RESOURCES (In Thousands)

A. Apportionment Categories of Obligations Incurred

Apportionment Categories of Obligations Incurred:

	2002*	2001
Category A, Direct	$1,352,128	$600,374
Category B, Direct	7,556,091	6,158,155
Category A, Reimbursable	9,921	12,112
Category B, Reimbursable	168,589	33,397
Total	**$9,086,729**	**$6,804,038**

* 2002 includes allocations from other agencies, which were not included in 2001.

B. Borrowing Authority, End of Period and Terms of Borrowing Authority Used

Borrowing authority for FY 2002 was $464,645 for Credit Financing Activities. There was no borrowing authority in FY 2001.

Borrowing Authority is indefinite and authorized under the Credit Reform Act of 1990 (P.L. 101-508), and is used to finance obligations during the current year, as needed.

C. Adjustments to Beginning Balance of Budgetary Resources

A difference exists between the FY 2001 Ending Obligated Balance and the FY 2002 Beginning Obligated Balance. This difference exists due to the exclusion of 6 appropriations (0091, 0113, 0535, 1075, 1154, and 4336) from USAID's FY 2002 Statement of Budgetary Resources that were allocated from other Federal agencies. The parent agencies include these funds in their Statement of Budgetary Resources.

The Amounts Related to Other Agency Activity as of September 30, 2002 were as follows:

Ending Balance, per FY 2001 Financial Statements:	$9,223,430
Less: Transferred Funds	(321,673)
Beginning Balance, per FY 2002 Financial Statements:	**$8,901,757**

NOTE 19. STATEMENT OF BUDGETARY RESOURCES (In Thousands) – Continued

D. Permanent Indefinite Appropriations

USAID has permanent indefinite appropriations relating to specific Credit Reform Program and Liquidating appropriations. USAID is authorized permanent indefinite authority for Credit Reform Program appropriations for subsidy reestimates, and Credit Reform Liquidating appropriations for potential claims in excess of funds availability. Both are authorized under the Credit Reform Act of 1990.

E. Legal Arrangements Affecting the Use of Unobligated Balances

Pursuant to Section 511 of PL 107-115 funds shall remain available until expended if such funds are initially obligated before the expiration of their periods of availability. Any subsequent recoveries (deobligations) of these funds become unobligated balances that are available for reprogramming by USAID (subject to OMB approval through the apportionment process).

NOTE 20. STATEMENT OF BUDGETARY RESOURCES - OTHER INFORMATION

Beginning in the 2002 Fiscal Year, changes were made to present USAID's Statement of Budgetary Resources (SBR) information consistent with the Budget of the United States Government. Allocated appropriations from other federal agencies were excluded from the face of the SBR and allocated appropriations to other federal agencies were included in the statement. This is a departure from prior years, where allocations to and from other federal agencies were regarded as differences between the Budget of the United States Government and the SBR and disclosed in a footnote.

USAID has identified $69.5 million cumulative remaining balance of undelivered orders (unliquidated obligations) for Washington managed funds that may be in excess of amounts required under these obligations. These amounts will need to be reviewed for possible deobligation in FY 2003.

NOTE 21. STATEMENT OF FINANCING - OTHER

Explanation of the Relationship Between Liabilities Not Covered by Budgetary Resources on the Balance Sheet and the Change in Components Requiring or Generating Resources in Future Periods

A portion of net increase in contingent liabilities for loan guarantees from FY 2001 includes the $22,947,070.20 for credit subsidy expense reestimates requiring resources in future periods which is shown on the Statement of Financing. Accrued Unfunded Annual leave on the balance sheet is shown as a cumulative balance, with the current period changes of $1,205,919.24. This increase is shown on the Statement of Financing as a change in components requiring resources in future periods. Increase in exchange revenue from the Public includes current-period increases in Accrued Unfunded Workers Compensation Benefits of $3,648,531.20, which is shown as liabilities not covered by budgetary resources, with other non-related expenses that require future resources.

Description of Transfers that Appear as a Reconciling Item on the Statement of Financing

In order to reconcile to Budget of the United States Government, appropriations that are transferred from other Federal Agencies to USAID are not shown on the Statement of Budgetary Resources, but are shown on the Balance Sheet and Statement of Net Cost. Appropriations that are transferred to other agencies are shown on the Statement of Budgetary Resources, but are not shown on the Balance Sheet or the Statement of Net Cost. A reconciliation of obligations and spending authority from offsetting collections between the Statement of Budgetary Resources and the Statement of Financing is provided.

Reconciliation of Obligations and Spending Authority from Offsetting Collections between the Statement of Budgetary Resources and the Statement of Financing		
Net Obligations Per Statement of Budgetary Resources		**$9,086,729**
Less: Transfers to Other Agencies		
Dept of State	(698,049)	
Independent Agencies	(447)	
Nuclear Regulatory Commission	(3,394)	(701,890)
Add: Transfers from Other Agencies		
Dept of State	211,500	
Dept of Argiculture	606,276	
Dept of State	884	
Executive Office of the President	400	
Other	167	819,227
Net Obligations Per Statement of Financing		**$9,204,066**
Spending Authority from Offsetting Collections Per Statement of Budgetary Resources		**$1,147,155**
Less: Transfers to Other Agencies		
Dept of State	(3,948)	
Other	45	(3,903)
Add: Allocations from Other Agencies		
Executive Office of the President	400	400
Spending Authority from Offsetting Collections Per Statement of Financing		**$1,143,652**

Required Supplementary Information: Intragovernmental Amounts

U.S. Agency for International Development

Required Supplementary Information: Intragovernmental Amounts as of September 30, 2002 (In Thousands) - Intragovernmental assets:

Agency	Fund Balance with Treasury	Accounts Receivable, Net	Advances and Prepayments	Totals
Treasury	$11,897,972	-	$ 481	$11,898,453
Dept of Agriculture	-	495,826	1,932	497,758
Dept of Commerce	-	-	18,604	18,604
Dept of State	-	-	12,298	12,298
Other	-	543	13,212	13,755
Total	$11,897,972	$496,369	$46,527	$12,440,868

Required Supplementary Information: Intragovernmental Amounts as of September 30, 2002 (In Thousands) - Intragovernmental liabilities:

Agency	Due to Treasury	Accounts Payable	Debt	Other	Totals
Treasury	$5,859,175	$ -	$16,744	$41,417	$5,917,336
GSA	-	10,698	-	-	10,698
Dept of Agriculture	-	18,588	-	-	18,588
Dept of Labor	-	3,136	-	6,421	9,557
Dept of Health and Human Services	-	13,646	-	-	13,646
Other	-	23,504	-	2,415	25,919
Total	$5,859,175	$69,572	$16,744	$50,253	$5,995,744

Intragovernmental earned revenues and related costs:

USAID's intragovernmental earned revenues are not greater than $500 million. As such, intragovernmental earned revenues and related costs by trading partner are not required to be reported.

Required Supplementary Information: Statement of Budgetary Resources

U.S. Agency for International Development

Required Supplementary Information: Statement of Budgetary Resources for the period ended September 30, 2002 (In Thousands)

	Program						Operating				
	1010	1021	1035	1037	1093	1095	1000	Credit Financing	Other	Allocations to Other Agencies	Consolidated Total
Budget Authority	427,094	1,165,719	421,251	3,004,914	643,082	1,443,965	582,769	465	277,189	707,780	8,674,228
Unobligated Balances - Beginning of Period	142,732	142,730	14,023	852,125	207,234	50,383	32,269	796,958	225,111	98,460	2,562,025
Spending Authority from Offsetting											
Collections	601	10,110	3	159,181	26	3,551	7,905	118,540	843,335	3,903	1,147,155
Recoveries of Prior-Year Obligations	8,960	31,150	10,675	9,901	15,921	2,626	17,944	5,904	13,765	17,383	134,229
Temporarily Not Available Pursuant to											
Public Law	-	-	-	-	-	-	-	-	-	-	-
Permanently Not Available	(9,124)	(17,137)	(28)	(10,254)	(15,626)	(10,091)	(455)	(48,249)	(918,243)	(6,638)	(1,035,845)
Total Budgetary Resources	570,263	1,332,572	445,924	4,015,867	850,637	1,490,434	640,432	873,618	441,157	820,888	11,481,792
Status of Budgetary Resources:											
Obligations Incurred	460,806	1,185,663	391,996	3,356,591	603,411	1,421,915	605,079	74,639	284,739	701,890	9,086,729
Unobligated Balances - Available	107,905	143,019	53,928	657,671	244,067	68,519	34,231	793,076	155,181	80,388	2,337,985
Unobligated Balances - Unavailable	1,552	3,890	-	1,605	3,159	-	1,122	5,903	1,237	38,610	57,078
Total, Status of Budgetary Resources	570,263	1,332,572	445,924	4,015,867	850,637	1,490,434	640,432	873,618	441,157	820,888	11,481,792
Relationship of Obligations to Outlays:											
Obligated Balance, Net, Beginning of Period	604,238	2,362,958	353,914	2,936,133	596,160	1,288,368	188,550	14,665	387,064	169,707	8,901,757
Obligated Balance, Transferred, Net	-	-	-	-	-	-	-	-	-	-	-
Obligated Balance, Net, End of Period	574,033	2,306,543	328,383	3,256,802	624,176	1,683,627	167,654	26,868	245,634	244,370	9,458,090
Outlays:											
Disbursements	482,052	1,209,872	406,852	3,026,020	559,475	1,022,679	604,138	67,860	412,404	616,817	8,408,169
Collections	(601)	(9,054)	(3)	(159,181)	(26)	(2,201)	(4,013)	(129,868)	(843,334)	(10,879)	(1,159,160)
Less: Offsetting Receipts	-	-	-	-	-	-	-	-	-	-	-
Net Outlays	481,451	1,200,818	406,849	2,866,839	559,449	1,020,478	600,125	(62,008)	(430,930)	605,938	7,249,009

MAJOR FUNDS

Program Fund

1010 Special Assistance Initiatives
1021 Development Assistance
1035 International Disaster Assistance
1037 Economic Support Fund
1093 Assistance for the N.I.S. Of The Former Soviet Union
1095 Child Survival and Disease Programs Funds

Operating Fund

1000 Operating Expenses of USAID

Credit-Financing Funds

4119 Israel Guarantee Financing Fund
4137 Direct Loan Financing Fund
4266 DCA Financing Fund
4342 MSED Direct Loan Financing Fund
4343 MSED Guarantee Financing Fund
4344 UE Financing Fund
4345 Ukraine Financing Fund

OTHER FUNDS

Operating Funds

1007 Operating Expenses of USAID Inspector General
1036 Foreign Service Retirement and Disability Fund

Program Funds

1012 Sahel Development Program
1014 Africa Development Assistance
1023 Food and Nutrition Development Assistance
1024 Population and Planning & Health Dev. Asst.
1025 Education and Human Resources, Dev. Asst.
1027 Transition Initiatives
1028 Global Fund to Fight HIV / AIDS
1038 Central American Reconciliation Assistance
1040 Sub-Saharan Africa Disaster Assistance
1096 Latin American/Caribbean Disaster Recovery
1500 Demobilization and Transition Fund

Trust Funds

8342 Foreign Natl. Employees Separation Liability Fund
8502 Tech. Assist. - U.S. Dollars Advance from Foreign
8824 Gifts and Donations

OTHER FUNDS (con't)

Credit Program Funds

0400 MSED Program Fund
0401 UE Program Fund
0402 Ukraine Program Fund
1264 DCA Program Fund
4103 Economic Assistance Loans - Liquidating Fund
4340 UE Guarantee Liquidating Fund
4341 MSED Direct Loan Liquidating Fund
5318 Israel Admin Expense Fund

Revolving Funds

4175 Property Management Fund
4513 Working Capital Fund
4590 Acquisition of Property, Revolving Fund

ALLOCATIONS TO OTHER AGENCIES

1000 Operating Expenses of USAID
1010 Special Assistance Initiatives
1014 Africa Development Assistance
1021 Development Assistance
1027 Transition Initiatives
1032 Peacekeeping Operations
1035 International Disaster Assistance
1037 Economic Support Fund
1093 Assistance for the N.I.S. Of The Former Soviet Union
1095 Child Survival and Disease Programs Funds
1500 Demobilization and Transition Fund

Consolidating Balance Sheet

U.S. Agency for International Development

Consolidating Balance Sheet as of September 30, 2002 (In Thousands)

	Credit Program Funds	Program Funds	Operating Funds	Revolving Funds	Trust Funds	Other Funds	Eliminating Entries	Total
ASSETS								
Intragovernmental								
Fund Balance with Treasury (Note 2)	$972,540	$10,485,870	$433,985	$4,269	$17,631	$(16,323)		$11,897,972
Accounts Receivable (Note 3)	16,383	36,04	500,066	-	-	20,913	(77,033)	496,369
Other (Note 4)	-	46,015	512	-	-	-		46,527
Total Intragovernmental	988,923	10,567,925	934,563	4,269	17,631	4,590	(77,033)	12,440,868
Cash and Other Monetary Assets (Note 5)	50	-	262,038	-	-	-		262,088
Accounts Receivable, Net (Note 3)	10,458	9,609	9,725	-	-	1,324	-	31,116
Loans Receivable, Net (Note 6)	5,997,453	-	-	-	-	-		5,997,453
Inventory and Related Property (Note 7)	-	11,550	8,691	-	-	-		20,241
General Property, Plant, and Equipment, Net (Note 8 and 9)	-	273	54,176	-	-	-		54,449
Advances and Prepayments (Note 4)	821	351,342	(22,505)	102	2	-		329,762
Total Assets	**6,997,705**	**10,940,699**	**1,246,688**	**4,371**	**17,633**	**5,914**	**(77,033)**	**19,135,977**
LIABILITIES (Note 16)								
Intragovernmental								
Accounts Payable (Note 10)	19,007	100,117	24,647	(3)	-	2,418	(76,614)	69,572
Debt (Note 11)	16,744	-	-	-	-	-		16,744
Due to U.S. Treasury (Note 11)	5,859,175	-	-	-	-	-		5,859,175
Other (Note 12, 13, and 14)	42,733	331	7,155	-	-	453	(419)	50,253
Total Intragovernmental	5,937,659	100,448	31,802	(3)	-	2,871	(77,033)	5,995,744
Accounts Payable (Note 10)	3,517	945,333	152,770	132	209	-		1,101,961
Loan Guarantee Liability (Note 6)	1,048,751	-	-	-	-	-		1,048,751
Federal Employees and Veteran's Benefits (Note 14)	-	-	28,251	-	-	-		28,251
Other (Note 12)	1,856	-	294,906	-	17,830	3,043		317,635
Total Liabilities	6,991,783	1,045,781	507,729	129	18,039	5,914	(77,033)	8,492,342
Commitments and Contingencies (Note 15)							-	
NET POSITION								
Unexpended Appropriations	29,836	9,875,994	159,460	-	-	-		10,065,290
Cumulative Results of Operations	(23,914)	18,924	579,499	4,242	(406)	-		578,345
Total Net Position	5,922	9,894,918	738,959	4,242	(406)	-	-	10,643,635
Total Liabilities and Net Position	**$6,997,705**	**$10,940,699**	**$1,246,688**	**$4,371**	**$17,633**	**$5,914**	**$(77,033)**	**$19,135,977**

Consolidating Statement of Net Cost

U.S. Agency for International Development

Consolidating Statement of Net Cost for the year ended September 30, 2002 (In Thousands)

	Credit Program	Program Funds	Operating Expenses	Revolving Funds	Trust Funds	Other	Eliminating Entry	Total
Costs by Goal:								
Broad-Based Economic Growth and Agricultural Development Encouraged								
Intragovernmental	$5,234	$59,628	$68,632	$-	$-	$-	$(1,063)	$132,431
Appropriations Used With the public	12,651	2,622,311	170,103	2,003	959	-	-	2,808,027
Taxes (and other non-exchange revenues) Total	17,885	2,681,939	238,735	2,003	959	-	(1,063)	2,940,458
Less earned revenues	(7,314)	(52,359)	-	-	-			(59,673)
Net program costs	10,571	2,629,580	238,735	2,003	959	-	(1,063)	2,880,785
Strengthen Democracy and Good Governance								
Intragovernmental	-	37,143	24,178	-	-		(374)	60,947
Appropriations Used With the public	-	581,015	59,925	-	267	-		641,207
Taxes (and other non-exchange revenues) Total	-	618,158	84,103	-	267	-	(374)	702,154
Less earned revenues	-	(11,210)	-	-	-			(11,210)
Net program costs	-	606,948	84,103	-	267	-	(374)	690,944
Improve Basic Education								
Intragovernmental	-	46,749	29,631	-	-		(459)	75,921
Appropriations Used With the public	-	663,679	73,438	-	344	-	-	737,461
Taxes (and other non-exchange revenues) Total	-	710,428	103,069	-	344	-	(459)	813,382
Less earned revenues	-	(8,876)	-	-	-			(8,876)
Net program costs	-	701,552	103,069	-	344	-	(459)	804,506
Stabilize World Population and Protect Human Health								
Intragovernmental	-	33,807	48,956	-	-	-	(758)	82,005
Appropriations Used With the public	-	1,351,030	121,336	-	464	-	-	1,472,830
Taxes (and other non-exchange revenues) Total	-	1,384,837	170,292	-	464	-	(758)	1,554,835
Less earned revenues	-	(48,687)	-	-	-			(48,687)
Net program costs	-	1,336,150	170,292	-	464	-	(758)	1,506,148
Protect the Global Environment:								
Intragovernmental	-	15,169	23,993	-	-	-	(371)	38,791
Appropriations Used With the public	34,745	403,860	59,466	-	247	-		498,318
Taxes (and other non-exchange revenues) Total	34,745	419,029	83,459	-	247	-	(371)	537,109
Less earned revenues	(19,265)	(5,595)	-	-	-			(24,860)
Net program costs	15,480	413,434	83,459	-	247	-	(371)	512,249
Save Lives through Humanitarian Assistance								
Intragovernmental	-	49,174	22,092	-	-	-	(342)	70,924
Appropriations Used With the public	39,217	973,070	526,267	-	216	-		1,538,770
Taxes (and other non-exchange revenues) Total	39,217	1,022,244	548,359	-	216	-	(342)	1,609,694
Less earned revenues	(39,217)	(41,860)	-	-	-			(81,077)
Net program costs	-	980,384	548,359	-	216	-	(342)	1,528,617
Less earned revenues not attributed to programs	-	-	(7,197)	(2,060)	0	-	3,367	(5,890)
Net Cost of Operations (Note 17)	**$26,051**	**$6,668,048**	**$1,220,820**	**$(57)**	**$2,497**	**$-**	**$-**	**$7,917,359**

Consolidating Statement of Changes in Net Position

U.S. Agency for International Development

Consolidating Statement of Changes in Net Position for the year ended September 30, 2002 (In Thousands)

	Credit Program Funds	Program Funds	Operating Funds	Revolving Funds	Trust Funds	Other Funds	Total
Net Position, Beginning Balances	17,935	9,158,372	619,197	4,185	(5)	-	9,799,684
Prior period adjustments (Note 18)	115	-	-	-	-	-	115
Beginning Balances, as adjusted	18,050	9,158,372	619,197	4,185	(5)	-	9,799,799
Budgetary Financing Sources:							
Appropriations Received	13,105	7,291,000	632,380	-	-	-	7,936,485
Appropriations transferred-in/out	2,761	183,837	26,768	-	-	-	213,366
Other adjustments (recissions, etc)	(15)	(70,243)	(481)	-	-	-	(70,739)
Donations and forfeitures of cash and cash equivalents	-	-	102,823	-	2,096	-	104,919
Transfers-in/out without reimbursement	-	-	565,633	-	-	-	565,633
Other Financing Sources:							
Transfers-in/out without reimbursement	(1,928)	-	-	-	-	-	(1,928)
Imputed financing from costs absorbed by others	-	-	13,459	-	-	-	13,459
Total Financing Sources	13,923	7,404,594	1,340,582	-	2,096	-	8,761,195
Net Cost of Operations	26,051	6,668,048	1,220,820	(57)	2,497	-	7,917,359
Net Position, Ending Balances	**5,922**	**9,894,918**	**738,959**	**4,242**	**(406)**	**-**	**10,643,635**

The accompanying footnotes are an integral part of these statements

Consolidating Statement of Budgetary Resources

U.S. Agency for International Development

Consolidating Statement of Budgetary Resources for the year ended September 30, 2002 (In Thousands)

	Credit Program Funds	Program Funds	Operating Funds	Revolving Funds	Trust Funds	Other Funds	Credit Financing	Total
Budgetary Resources:								
Budget Authority	$45,866	$7,963,617	$659,149	$-	$5,131	$-	$465	$8,674,228
Unobligated Balances - Beginning of Period	187,844	1,536,328	35,218	3,490	2,187	-	796,958	2,562,025
Spending Authority from Offsetting Collections	841,222	177,378	7,956	2,059	-	-	118,540	1,147,155
Recoveries of Prior-Year Obligations	1,368	106,320	20,637	-	-	-	5,904	134,229
Temporarily Not Available Pursuant to Public Law	-	-	-	-	-	-	-	-
Permanently Not Available	(910,234)	(76,881)	(481)	-	-	-	(48,249)	(1,035,845)
Total Budgetary Resources	166,066	9,706,762	722,479	5,549	7,318	-	873,618	11,481,792
Status of Budgetary Resources:								
Obligations Incurred	43,377	8,277,698	683,346	2,287	5,382	-	74,639	9,086,729
Unobligated Balances	122,175	1,379,935	37,601	3,262	1,936	-	793,076	2,337,985
Unobligated Balances	514	49,129	1,532	-	-	-	5,903	57,078
Total Status of Budgetary Resources	166,066	9,706,762	722,479	5,549	7,318	-	873,618	11,481,792
Relationship of Obligations to Outlays:								
Obligated Balance, Net, Beginning of Period	33,428	8,642,360	198,177	885	12,242	-	14,665	8,901,757
Obligated Balance, Transferred, Net	-	-	-	-	-	-	-	-
Obligated Balance, Net, End of Period	23,561	9,212,860	178,099	1,007	15,695	-	26,868	9,458,090
Outlays:								
Disbursements	51,875	7,605,446	678,895	2,164	1,929	-	67,860	8,408,169
Collections	(841,221)	(181,948)	(4,065)	(2,058)	-	-	(129,868)	(1,159,160)
Less: Offsetting Receipts	-	-	-	-	-	-	-	-
Net Outlays	$(789,346)	$7,423,498	$674,830	$106	$1,929	$-	$(62,008)	7,249,009

The accompanying footnotes are an integral part of these statements

Consolidating Statement of Financing

U.S. Agency for International Development

Consolidating Statement of Financing for the year ended September 30, 2002 (In Thousands)

	Credit	Program	Operating	Revolving	Trust	Other	Total
Resources Used to Finance Activities:							
Budgetary Resources Obligated							
Obligations Incurred (Note 21)	118,016	8,277,698	683,346	2,287	5,382	-	9,086,729
Appropriations transferred to/from other agencies (net)	54	(489,880)	607,163	-	-	-	117,337
Total Obligations Incurred	118,070	7,787,818	1,290,509	2,287	5,382	-	9,204,066
Less Spending authority from offsetting collections and recoveries (Note 21)	(959,762)	(177,378)	(7,956)	(2,059)	-	-	(1,147,155)
Spending authority transferred to/from other agencies (net)	-	3,503	-	-	-	-	3,503
Total Spending authority from offsetting collections and recoveries	(959,762)	(173,875)	(7,956)	(2,059)	-	-	(1,143,652)
Net Obligations	(841,692)	7,613,943	1,282,553	228	5,382	-	8,060,414
Other Resources							
Donated and Credit Program Revenue	(65,796)	(2,406)	(6,372)	-	-	-	(74,574)
Imputed Financing From Costs Absorbed by Others	-	-	13,459	-	-	-	13,459
Net other resources used to finance activities	(65,796)	(2,406)	7,087	-	-	-	(61,115)
Total resources used to finance activities	(907,488)	7,611,537	1,289,640	228	5,382	-	7,999,299
Resources Used to Finance Items not Part of the Net Cost of Operations:							
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided	7,820	(950,999)	(164,506)	(285)	(3,285)	-	(1,111,255)
Resources that fund expenses recognized in prior periods	-	-	(995)	-	-	-	(995)
Budgetary offsetting collections and receipts that do not affect net cost of operations							
Credit program collections which increase liabilities for loan guarantees or allowances for subsidy	959,754	-	-	-	-	-	959,754
Other	(23)	2,406	3,892	-	-	-	6,275
Resources that finance the acquisition of assets	(11,132)	320	44,225	-	-	-	33,413
Total resources used to finance items not part of net cost of operations	956,419	(948,273)	(117,384)	(285)	(3,285)	-	(112,808)
Total resources used to finance net cost of operations	48,931	6,663,264	1,172,256	(57)	2,097	-	7,886,491
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:							
Components Requiring or Generating Resources in Future Periods (Note 21):							
Increase in annual leave liability	57	-	749	-	400	-	1,206
Upward/Downward reestimates of credit subsidy expense	(22,947)	-	-	-	-	-	(22,947)
Increase in exchange revenue receivable from the public	-	-	39,221	-	-	-	39,221
Total components of net cost of operations that will require or generate resources in future periods	(22,890)	-	39,970	-	400	-	17,480
Components not Requiring or Generating Resources:							
Depreciation and Amortization	-	141	10,384	-	-	-	10,525
Revaluation of assets or liabilities	-	-	(2,056)	-	-	-	(2,056)
Other	10	4,643	266	-	-	-	4,919
Total components of net cost of operations that will not require or generate resources	10	4,784	8,594	-	-	-	13,388
Total components of net cost of operations that will not require or generate resources in the current period	(22,880)	4,784	48,564	-	400	-	30,868
Net Cost of Operations	26,051	6,668,048	1,220,820	(57)	2,497	-	7,917,359

The accompanying footnotes are an integral part of these statements

Part 2: Independent Auditor's Report on USAID's FY 2002 Financial Statements

January 24, 2003

MEMORANDUM

TO: CFO/FM, Susan J. Rabern

FROM: AIG/A, Bruce N. Crandlemire

SUBJECT: Independent Auditor's Report on USAID's Consolidated Financial Statements, Internal Controls, and Compliance for Fiscal Year 2002 (Report No. 0-000-03-001-C)

The Office of the Inspector General (OIG) is transmitting its reports on the audit of the U.S. Agency for International Development's (USAID's) fiscal year (FY) 2002 financial statements, related internal controls, and compliance with applicable laws and regulations. Under the Government Management Reform Act of 1994, USAID is required to prepare consolidated fiscal year-end financial statements. For FY 2002, USAID is required to submit the audited financial statements to the Office of Management and Budget (OMB) and the U.S. Department of the Treasury (U.S. Treasury) by February 1, 2003.

Enclosed are the OIG's reports on USAID's FY 2002 financial statements, related internal controls, and compliance with applicable laws and regulations. We are pleased to report that we are able to issue opinions on all five principal financial statements. This is an important milestone and represents significant progress by USAID. However, on the Statement of Net Costs, the opinion was achieved only through extensive efforts to overcome material weaknesses in internal controls. Although these efforts resulted in auditable information on the statement of net costs, the efforts did not provide timely information to USAID managers to make cost and budgeting decisions throughout the year.

With respect to internal controls, our report discusses seven material weaknesses and three reportable conditions identified during the audit. The material weaknesses were related to USAID's process for (1) allocating Program Expenses on its Statement of Net Costs, (2) reconciling its Fund Balance with the U.S. Treasury, (3) calculating the Allowances for its Credit Program, (4) recording and classifying its Advances to Grantees and Related Expenses, (5) reviewing, analyzing, and deobligating its Unliquidated Obligations as necessary, (6) calculating and reporting its Accounts Payables, and (7) recognizing, recording, and reporting its Accounts Receivable.

The reportable conditions address USAID's needs to (1) establish a monthly general ledger closing procedure, (2) improve its controls over the management of property at USAID overseas missions, and (3) improve its procedures for preparing the Management's Discussion and Analysis section of the Accountability Report required by the Federal Accounting Standards Advisory Board.

We are reporting that USAID is not in substantial compliance with the financial management systems requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA), the Computer Security Act of 1987, and the Debt Collection and Improvement Act of 1996. However, USAID is making progress towards becoming substantially compliant.

This report contains ten recommendations to improve USAID's internal controls for the preparation of its annual financial statement required under the Chief Financial Officer's Act. (See Appendix III for the status of uncorrected findings and recommendations from our prior audits that affect the current objectives).

We have received and considered your response to the draft report and the recommendations included therein (see page 49). Based on your response, we have accepted your comments as management decisions. Please forward all information to the Office of Management, Planning, and Innovation for acceptance and final action. See Appendix II for USAID's Management Comments.

We appreciate the cooperation and courtesies that your staff extended to the OIG during our audit. The Office of the Inspector General is looking forward to working with you on the audit of the FY 2003 financial statements (in the agreed-to accelerated schedule) and to seeing improved systems and controls.

Part 2: Independent Auditor's Report on USAID's FY 2002 Financial Statements

SUMMARY OF RESULTS

The Government Management Reform Act (GMRA) of 1994 requires the U.S. Agency for International Development (USAID) to prepare and submit audited consolidated financial statements for inclusion in the government-wide financial statements. As part of this effort, GMRA requires the Office of Inspector General (OIG) to:

- Audit the financial statements and issue an opinion on the fairness of their presentation in accordance with generally accepted accounting principles;
- Report on related internal controls; and
- Report on compliance with applicable laws and regulations.

Auditor's Opinion on USAID's Fiscal Year 2002 Financial Statements

In our opinion, USAID's balance sheet, statement of changes in net position, statement of budgetary resources, and statement of financing present fairly, in all material respects, the financial position of USAID as of September 30, 2002, in conformity with generally accepted accounting principles.

We were, however, unable to obtain sufficient competent evidential matter to support USAID's allocation of about $384 million to the related responsibility segments on the statement of net costs.

In our opinion, except for the inconsistencies in the process used by USAID to allocate program expenses related to obligations that support multiple Agency goals, USAID's statement of net costs presents fairly, in all material respects, its expenses as of September 30, 2002, in conformity with generally accepted accounting principles (see pages 93 to 94).

Other Required Supplementary Information

According to the Federal Accounting Standards Advisory Board, Management's Discussion and Analysis (MD&A) is required supplementary information. We did not audit and do not express an opinion on this information. However, we have applied certain limited procedures to determine the methods of measurement and presentation of the supplementary information. As a result of these procedures, we believe that the MD&A materially departs from prescribed guidelines in the following ways:

1. The MD&A did not contain a clear picture of USAID's planned performance for FY 2002.
2. Most performance information contained in the draft FY 2002 MD&A was based on results achieved in FY 2001 or earlier.
3. The MD&A did not link costs to results.

Further information on this finding is included in the Report on Internal Controls and the Report on Compliance with Laws and Regulations (see pages 106 to 110, respectively).

Report on Related Internal Controls

Our audit identified seven material internal control weaknesses (see pages 95 to 105) and three reportable conditions that are included in this report.

The material weaknesses were that improvements are needed in the following USAID processes:

1. Allocating program expenses on its Statement of Net Costs.
2. Reconciling its Fund Balance with the U.S Treasury.
3. Calculating and reporting its Accounts Payable.
4. Recording and classifying Advances to Grantees and related expenses. (Repeat Finding)
5. Reviewing, analyzing, and deobligating its Unliquidated Obligations. (Repeat Finding)
6. Recognizing, recording, and reporting its Accounts Receivable. (Repeat Finding)
7. Calculating Credit Program Allowances.

The reportable conditions related to USAID's need to:

1. Establish a monthly closing procedure.
2. Improve its controls and management of its property at overseas missions.
3. Improve its system for preparing the Management's Discussion and Analysis.

Report on Compliance with Laws and Regulations

USAID's financial management systems did not substantially comply with the Federal Financial Management Improvement Act of 1996. Specifically,

Part 2: Independent Auditor' s Report on USAID' s FY 2002 Financial Statements

USAID's financial management systems did not substantially comply with Federal financial management system requirements, Federal Accounting Standards, or the U.S. Standard General Ledger at the transaction level. However, USAID is making progress towards becoming substantially compliant..

Our audit also disclosed three instances of noncompliance with laws and regulations that could have a direct and material effect on the principal financial statements and required supplementary information. The laws with which USAID did not comply were:

- The Federal Financial Management Improvement Act of 1996.
- The Computer Security Act of 1987.
- The Debt Collection and Improvement Act of 1996.

We considered USAID's internal control weaknesses and noncompliance with laws and regulations to determine our auditing procedures for the purpose of forming our opinion on the financial statements and not to provide assurance on internal controls and compliance with laws and regulations. We have provided additional information in the independent auditor's report on internal controls (see page 15).

USAID reported four material weaknesses in its FY 2001 Accountability Report and will report three material weaknesses in its FY 2002 Accountability Report, which will be issued on February 1, 2003.

BACKGROUND

The United States Agency for International Development (USAID) was created in 1961 to advance the United States' foreign policy interest by promoting broad-based sustainable development and providing humanitarian assistance. USAID has an overseas presence in over 70 countries, 42 of which have operational and formal accounting stations. In fiscal year 2002, USAID had total obligation authority of about $7.8 billion.

Under the Government Management Reform Act of 1994, USAID is required to annually submit audited financial statements to the Office of Management and Budget (OMB) and appropriate Congressional Committees. Pursuant to this Act, for FY 2002, USAID has prepared the following:

- Balance Sheet,
- Statement of Net Costs,
- Statement of Changes in Net Position,
- Statement of Budgetary Resources,
- Statement of Financing,
- Notes to the financial statements, and
- Other accompanying information.

Audit Objectives

OMB Bulletin No. 01-02 and related GAO guidance established the minimum audit requirements for Federal financial statements. For FY 2002, this Bulletin required us to:

- Determine whether USAID's principal financial statements present fairly in all material respects, and in conformity with generally accepted accounting principles the (1) assets, (2) liabilities and net position, (3) net costs, (4) changes in net position, (5) budgetary resources, and (6) reconciliation of net costs to budgetary obligations.
- Obtain an understanding of USAID's internal control to understand the design of controls relevant to an audit of financial statements and determine whether they have been placed in operation. Assess control risk for the assertions embodied in the classes of transactions, account balances, and disclosure components of the financial statements.
- Obtain an understanding of the components of USAID's internal controls relating to the existence and completeness assertions relevant to the performance measures included in Management's Discussion and Analysis (MD&A).
- Report on USAID's compliance with laws and regulations that could have a direct and material effect on the principal statements and any other applicable laws and regulations.
- Report whether USAID's financial management systems substantially comply with the Federal Financial Management Improvement Act section 803(a) requirements.

For the first objective, we obtained sufficient evidence about the balances in the material line items on USAID's FY 2002 financial statements to enable us to form an opinion on those statements.

For the second objective, we obtained an understanding of USAID's internal controls and assessed the control risk for the assertions embodied in the classes of transactions, account balances, and disclosure components of the financial statements.

For the third objective, we gained an understanding of the internal controls related to the existence and completeness assertions relevant to the performance measures included in the MD&A.

For the fourth and fifth objectives, the OIG determined, among other things, whether USAID's financial management systems substantially comply with federal requirements for financial management systems, applicable Federal accounting standards, and the U.S. Standard General Ledger at the transaction level, as required by Section 803(a) of the FFMIA of 1996. (See Appendix I for our scope and methodology)

In accordance with the OMB audit requirements for Federal financial statements, this combined audit report includes our separate reports on USAID's financial statements, internal controls, and compliance with applicable laws and regulations.

INDEPENDENT AUDITOR'S REPORT ON USAID'S FINANCIAL STATEMENTS

Audit Findings

Did USAID's principal financial statements present fairly: the assets, liabilities, net position, net costs, change in net position, budgetary resources, and reconciliation of net costs, and budgetary obligations for FY 2002?

We have audited the accompanying balance sheet, statement of changes in net position, statement of net costs, statement of budgetary resources, and statement of financing of USAID for the year ended September 30, 2002. We conducted our audit in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the Office of Management and Budget (OMB) Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements." We believe that our audit provides a reasonable basis for our opinion.

In our opinion, USAID's FY 2002 balance sheet, statement of changes in net position, statement of budgetary resources, and statement of financing present fairly, in all material respects, the financial position of USAID for the year then ended, in conformity with generally accepted accounting principles.

We were unable to obtain sufficient competent evidential matter to support USAID's allocation of about $384 million to the related responsibility segments on the statement of net costs.

In our opinion, except for the inconsistencies in the process used by USAID to allocate program expenses related to obligations that support multiple agency goals, USAID's statement of net costs present fairly, in all material respects, the expenses of USAID as of September 30, 2002, in conformity with generally accepted accounting principles.

For FY 2001, we audited and issued qualified opinions on, USAID's balance sheet, statement of changes in net position, and statement of budgetary resources. We were also engaged to audit the FY 2001 statement of net costs and statement of financing, on which we disclaimed opinions.

The financial statements are the responsibility of USAID's management. In that regard, USAID's management is responsible for:

1. Preparing the financial statements in conformity with generally accepted accounting principles.
2. Establishing, maintaining, and assessing internal controls to provide reasonable assurance that the broad objectives of the Federal Managers' Financial Integrity Act are met.
3. Establishing and maintaining that USAID's financial management systems comply with Federal Financial Management Improvement Act (FFMIA) requirements.
4. Complying with applicable laws and regulations.

The Office of Inspector General is responsible for obtaining reasonable assurance about whether the financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles. In order to fulfill these responsibilities, we:

1. Examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements.
2. Assessed the accounting principles used and significant estimates made by management.
3. Evaluated the overall presentation of the financial statements.

Part 2: Independent Auditor' s Report on USAID' s FY 2002 Financial Statements

4. Obtained an understanding of internal control related to financial reporting (including safeguarding assets), compliance with laws and regulations (including execution of transactions in accordance with budget authority), and performance measures reported in Management's Discussion and Analysis of the Accountability Report.

5. Tested relevant internal controls over financial reporting and compliance, and evaluated the design and operating effectiveness of internal controls.

6. Considered the process for evaluating and reporting on internal control and financial management systems under the Federal Managers' Financial Integrity Act.

7. Tested whether USAID's financial management systems substantially complied with the three FFMIA requirements.

8. Tested USAID's compliance with selected provisions of the following laws and regulations:

   - Anti-Deficiency Act,
   - Prompt Payment Act,
   - Debt Collection and Improvement Act, and
   - Federal Credit Reform Act.

We did not evaluate all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act, such as those controls relevant to preparing statistical reports and ensuring efficient operations. Instead, we limited our internal control testing to controls over financial reporting and compliance.

Because of inherent limitations in internal controls, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our evaluation to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate. In addition, we caution that our internal control testing may not be sufficient for other purposes. *(See the FFMIA section of Compliance Report on USAID's FY 2002 financial statements for additional internal control weaknesses.)*

We did not test compliance with all laws and regulations applicable to USAID. We limited our tests of compliance to those laws and regulations required by OMB audit guidance that we deemed applicable to the financial statements for the fiscal year ended September 30, 2002. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

In accordance with *Government Auditing Standards* and the provisions of *OMB Bulletin 01-02,* we have also issued reports, dated January 24, 2003, on our consideration of USAID's internal controls and on its compliance with laws and regulations.

Management's Discussion and Analysis (MD&A) is required supplementary information according to the Federal Accounting Standards Advisory Board. We did not audit and do not express an opinion on this information. However, we have applied certain limited procedures to determine the methods of measurement and presentation of the supplementary information. As a result of these procedures, we believe that the performance information reported in the MD&A materially departs from prescribed guidelines in the following ways:

1. The MD&A did not contain a clear picture of USAID's planned performance for FY 2002.

2. Most performance information contained in the draft FY 2002 MD&A was based on results achieved in FY 2001 or earlier.

3. The MD&A did not link costs to results.

Further information is included in the Report on Internal Controls and the Report on Compliance with Laws and Regulations.

Office of Inspector General
January 24, 2003

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROLS

Audit Findings

Did USAID establish adequate internal controls related to its financial statements and the performance measures contained in its Management's Discussion and Analysis section?

We have audited the financial statements of USAID for the fiscal year ended September 30, 2002 and have issued our report thereon. We conducted the audit in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the Office of Management and Budget (OMB) Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements."

In planning and performing our audit, we considered USAID's internal controls over financial reporting by obtaining an understanding of those controls. We determined whether the internal controls have been placed in operation, assessed control risk, and performed tests of controls to determine our auditing procedures for the purpose of expressing an opinion on the financial statements. We limited the internal control testing to those necessary to achieve the objectives described in OMB Bulletin No. 01-02. We did not test all internal controls relevant to the operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (such as those relevant to ensuring efficient operations).

The objectives of internal controls are to provide management with reasonable, but not absolute, assurance that the following objectives are met:

- Transactions are properly recorded and accounted for to permit the preparation of reliable financial reports and to maintain accountability over assets.
- Funds, property, and other assets are safeguarded against loss from unauthorized acquisition, use, or disposition.
- Transactions that have a material impact on the financial statements, including those related to obligations and costs are executed in compliance with laws and regulations.

The objective of our audit was not to provide assurance on internal controls; consequently, we do not provide an opinion on those controls.

Our consideration of the internal controls over USAID's financial reporting would not necessarily disclose all matters that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgement, could adversely affect USAID's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses, on the other hand, are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Nevertheless—because of inherent limitations in internal controls—misstatements, losses, or noncompliance may occur and not be detected. However, we noted certain matters, discussed in the following paragraphs and accompanying schedules, involving the internal controls and their operation that we consider material weaknesses and/or reportable conditions. We have also identified material weaknesses and reportable conditions noted in prior Government Management and Reform Act (GMRA) audit reports that continued to exist during FY 2002 as "Repeat Findings." *(See the Federal Financial Management Improvement Act of 1996 [FFMIA] section of the Compliance Report for additional internal control weaknesses.)*

The material weaknesses were that USAID needs to improve its processes for:

1. Allocating program expenses on its Statement of Net Costs
2. Reconciling its Fund Balance with the U.S Treasury
3. Calculating and reporting its Accounts Payable
4. Recording and classifying Advances to Grantees and related Expenses (Repeat Finding)

5. Reviewing, analyzing, and deobligating its Unliquidated Obligations. (Repeat Finding)

6. Calculating Credit Program Allowances

7. Recognizing, recording, and reporting its Accounts Receivable. (Repeat Finding)

The reportable conditions related to USAID's need to:

1. Establish a monthly closing procedure

2. Improve its controls and management of its property at overseas missions

3. Improve its system for preparing the Management's Discussion and Analysis

Material Weaknesses

USAID's Process for Allocating Program Expenses on Its Statement of Net Costs Needs Improvement

The OIG determined that in some cases USAID's current statement of net costs may not reliably reflect expenses by responsibility segment because USAID had not developed a process to consistently allocate program expenses to its funding sources, strategic objectives, and related Agency goals when it finances grants from multiple sources that are associated with more than one goal. Therefore, USAID cannot be fully assured that program expenses of about $384 million were allocated to the corresponding Agency goals according to their original purpose or that the recorded expense correlates to the activities from which they occurred.

SFFAS No. 4, dated July 13, 1995, states that reliable information on the costs of Federal programs and activities are crucial for effective management of government operations. This standard also requires that "cost be accumulated by responsibility segments." The accumulation is for costs incurred within each responsibility segment and does not involve the assignment or allocation of costs incurred by other supporting segments. The reporting entity may have a centralized accounting system, but the system should be capable of identifying costs within responsibility segments.

USAID's process for recording its Letter of Credit transactions is very complex. Grants are often awarded to support multiple Agency goals and are financed by one or more funding transactions. However, grantees only report expense information at the grant level. USAID uses the pooling method to process drawdown postings in the accounting system (Phoenix). Therefore, both drawdowns and liquidations may not be reliable. The OIG determined that drawdowns in Phoenix matched the information maintained by the Department of Health and Human Services (DHHS)[1]. However, DHHS uses the "first-in-first out" method to record the drawdowns, which usually charges them against incorrect grants. Further, since the grantees are only required to report expenses at the grant level, DHHS had to develop a formula to record expenses against the numerous funding sources within the related contract and grant agreements.

When USAID tries to match DHHS reported expenses against grant agreements through an interface between USAID's and DHHS's systems, the interface locates the grant and then uses the Common Account Number[2] (CAN) to match a Budget Fiscal Year (BFY) under the grant agreements. Initially, the system attempts to match the same fund with the same BFY as identified by DHHS to record the expenses. If there is no match for the same fund and BFY, the system looks for the same fund in any BFY to record the expenses. Finally, if there is no match for the same fund in any BFY, the system will record the expenses against the oldest BFY regardless of the fund. This may lead to expenses crossing several Agency goals on the statement of net costs.

Expenses from the DHHS system are interfaced with USAID's Phoenix system. The interface identifies the Phoenix obligation number by using a crosswalk that translates DHHS's document numbers into Phoenix obligation numbers. Using the obligation number, the interface will locate the core grant or grant number within Phoenix. The interface then replaces the obligation number with the DHHS CAN and locates the corresponding BFY. The interface then verifies the accounting lines under the grant and liquidates the obligations in the following order:

1. If the accounting line does not have sufficient funds the interface will

[1] DHHS is the servicing agency that manages advances to USAID's grantees through the Letter of Credit System. Therefore, the Payment Management System is USAID's subsidiary ledger for advances to grantees.

[2] The Common Account Number is an eleven-digit number composed of two separate parts. The first seven numbers of the CAN identify the awarding agency. For non-DHHS accounts, the last four numbers of the CAN identify the funding code/source as assigned by the awarding agency.

liquidate the maximum portion from that accounting line and locate the next accounting line with matching BFY and fund.

2. If no matching BFY is available the interface will then locate an accounting line under the grant with a matching fund and liquidate the expense against the oldest BFY.
3. If no matching fund is available, the interface will liquidate the expense against the earliest BFY regardless of the type of fund.
4. If no unliquidated obligations are available under the grant the transaction will be rejected for insufficient funds and would require manual posting.

Further, the OIG determined that for the first four months of the fiscal year DHHS provided expense information to USAID on hard copy reports. The information on these reports was manually entered into the accounting system by voucher examiners. USAID's methodology was to record the expenses against the oldest available funds regardless of the expense allocation indicated on the Payment Management System (PMS) report. Beginning in February 2002, expense information was transferred to the USAID accounting system via an electronic interface. The methodology was altered to a step down approach that would first attempt to record the expenses against the DHHS allocated fiscal year and fund. Next, if sufficient funding were not available, the expenses would be recorded against the fund with an available balance in any fiscal year. Finally, if sufficient funding were not available under the two steps above, the expenses would be posted against any available funding source beginning with the oldest fiscal year.

We sampled and reviewed the expense liquidations as two separate methodologies—the manual process and the automated process. We selected transactions processed through each of the methodologies. Based on our review of the manual processing methodology, we noted that USAID did not consistently record the expenses against the oldest available funds and the corresponding Agency goals. Additionally, we noted that credit amounts were recorded to one funding source. Because credit amounts usually relate to expenses of previous quarters, it would have been more reasonable to apply the credits to the previously recorded expenses. For example, for one manual credit transaction reviewed, about $3.2 million was recorded as expense against USAID goal number five, causing a reduction of $3.2 million in the unliquidated balance of this goal. However, the original $3.2 million transaction was allocated to all USAID goals. Inaccurate postings in the manual process usually have a ripple effect on the transactions processed throughout the year because the funds that are liquidated through the manual postings are no longer available for subsequent liquidations.

The OIG determined that USAID's automated process followed the established methodology to record expenses against the corresponding Agency goals. However, the system did not give preference to similar funds. For example, the system recorded expenses related to development assistance (DV) funds and expenses in the development assistance funds for population (DV-POP) as different funding sources.

Because USAID's process for allocating program expenses on its statement of net costs needs improvement and modifications are needed in its allocation methodology, we are making the following recommendation to USAID management:

Recommendation No. 1: We recommend that the Chief Financial Officer establish requirements to:

1.1 Modify the manual expense distribution methodology, whenever there is no specific fund cite, to match advance liquidation expense reported by the U.S. Department of Health and Human Services.

1.2 Ensure that USAID's automated posting process uses the Department of Health and Human Service's posting methodology.

USAID's Process for Reconciling Its Fund Balance with the U.S. Treasury Needs Improvement.

The OIG determined that USAID has not implemented effective internal controls to ensure that its fund balance with Treasury is reconciled in a timely manner. While USAID has improved in this area, we identified several continuing problems that hindered its ability to reconcile differences with the fund balance account. Specifically, USAID's Office of Financial Management and the overseas missions did not consistently reconcile—research and resolve—differences identified between the records of USAID, the State Department's U.S. Disbursement Offices, and the U.S. Treasury. In FY 2002, USAID's Office of Financial Management made unsupported adjustments of about $45 million net ($203 million in absolute dollar value) to bring its cash balance in agreement with Treasury's balance.

According to USAID Office of Financial Management officials, this adjustment was made because it is necessary for USAID to bring its fund balance in agreement with the U.S. Treasury for the yearend closing statement and the annual financial statement.

The U.S. Department of Treasury's guidance[3] for reconciling fund balances requires that Federal agencies research and resolves differences reported by the U.S. Treasury on a monthly basis. Agencies must also resolve all differences between the balances reported in their general ledger fund balance with the U.S. Treasury accounts and the balances reported by the U.S. Treasury. This guidance stipulates three months as a reasonable period for clearing the differences.

The reconciliation process contains two steps: (1) identifying the differences between USAID's records and the U.S. Department of Treasury's records and (2) researching and resolving these differences. Some of the differences are timing differences that will be eliminated with the passage of time, while other differences are accounting and posting errors that must be corrected. The U.S. Treasury reconciliation procedures state that an agency may not arbitrarily adjust its Fund Balance with the U.S. Treasury account. The procedures further state that an agency can adjust its Fund Balance with the U.S. Treasury account balance only after clearly establishing the causes for any errors and properly correcting those errors. In addition, the procedures state that an agency should document "month cleared" (the accounting month that the discrepancy was adjusted), accounting periods, required explanations, and brief narratives that disclose the cause of the discrepancy. USAID did not consistently follow the first and second steps of the reconciliation process.

USAID did not completely reconcile its fund balance with Treasury and research and resolve a difference of about $239 million in its Washington appropriation accounts for the year ended September 30, 2002. Furthermore, according to USAID, as of mid-November 2002, it did not research and resolve the operating expense appropriation differences.

This occurred because USAID had not established a process to close the monthly accounting periods in its accounting system. This lack of monthly closing creates differences between USAID's monthly transaction totals and the U.S. Treasury's monthly records. According to USAID, the accounting periods in its accounting system remained open throughout the subsequent periods because not all financial activities were entered into the accounting system in a timely manner. The Joint Financial Management Improvement Program (JFMIP)[4] "Core Financial System Requirements" require Federal agencies to close accounting periods and prohibit subsequent postings to the closed periods.

Further, some of these differences resulted from overseas transactions that were not reconciled because USAID did not implement the necessary reconciliation procedures to analyze, research, and resolve the outstanding reconciling items reported by its missions. As a result, USAID's Office of Financial Management made unsupported year-end adjustments of about $45 million net ($203 million in absolute dollar value) to bring its September 30, 2002, cash balance in agreement with Treasury's balance. Because USAID needs to continue researching and resolving all outstanding reconciling items, we are making the following recommendation:

Recommendation No. 2: We recommend that the Chief Financial Officer:

2.1 Provide detailed guidelines to overseas missions for writing off old reconciling items. These guidelines should include the reconciliation steps that should be completed before USAID missions request write-offs.

2.2 Reconcile the mission adjustment account in the general ledger to the cumulative amounts in the mission ledgers and resolve differences between the general ledger and the mission ledgers.

USAID's Internal Controls over Its Accounts Payable Process Need Improvement (Repeat Finding)

The OIG determined that USAID's internal controls over its accounts payable process needs improvement. Although progress has been made, we

[3] Fund Balance with Treasury Reconciliation Procedures, A Supplement to the Treasury Financial Manual, ITFM 2-5100, August 1999.

[4] FFMIA requires that agencies implement and maintain financial management systems that substantially comply with federal financial management systems requirements. These system requirements are detailed in the Financial Management Systems Requirements series issued by JFMIP and OMB Circular A-127.

noted that amounts reported for a significant portion of the accounts payable via the Accrual Reporting System (ARS) used by USAID/ Washington and via Mission Accounting and Control System (MACS) by its missions were unsupported by financial documentation. In our FY 2001 GMRA audit, this problem related only to USAID missions. We recommended that USAID's Office of Financial Management develop standardized documentation requirements for its missions and for coordinating with its Office of Procurement and issue detailed guidance for missions to identify obligations that are available for deobligation. USAID has fully implemented this recommendation.

However, after USAID/Washington implemented the ARS, similar problems were identified with the USAID/ Washington's accounts payable. This occurred because USAID program managers have not developed an effective process for estimating accounts payable. As a result, USAID's FY 2002 expenses were overstated by about $236 million ($52 million from its missions and $184 million for Washington). USAID management recorded an adjustment for the $236 million to present a more reliable accounts payable balance on its financial statements at September 30, 2002.

Statement of Federal Financial Accounting Standards (SFFAS) No. 1 requires that when an entity accepts title to goods, whether the goods are delivered or in transit, the entity should recognize a liability for the unpaid amount of the goods. If invoices for the goods are not available when financial statements are prepared, the amounts owed should be estimated. Moreover, USAID's Automated Directive System 630.3.2.4 requires that in addition to the sequential schedule/voucher files maintained by fiscal year, paying offices must maintain individual contract obligation and payment records in sufficient detail so that the financial status of each contract can be readily determined and used in deciding whether payment of a given invoice should be approved.

The OIG found that amounts calculated by the Cognizant Technical Officers via the ARS process were not supported by available financial documentation, rationale for calculations, or status reports that reflect an assessment of the spending for the project or activity. Moreover, the OIG found that several accounts payable amounts were recorded by USAID for the entire balance of the related obligations, with expired performance periods. These obligations either had no financial activity in more than one year or had no activity since they were established. The OIG determined that USAID had not conducted the necessary research to determine if the obligations and corresponding accounts payable were necessary.

These conditions resulted because the efforts of USAID were hampered by the inefficiencies of the Mission Accounting and Control System (MACS)[5], and its inability to group various funding instruments of the same project or program. However, some USAID Cognizant Technical Officers had not documented their calculations, their communications with contractors and grantees, their analysis of project expense burn rates, or their review of the necessary accounting reports.

Furthermore, the OIG determined that USAID did not close several obligations and calculated accounts payable for the entire remaining balance because they have not received disbursement data or the final vouchers from the contractors or grantees. Consequently, the FY 2002 accounts payable reported by USAID were overstated by about $236 million. USAID subsequently made an adjustment to record the $236 million to present a more reliable accounts payable balance in its FY 2002 financial statements. However, because of the recurrence of this internal control weakness, we are restating the following recommendation to USAID management:

Recommendation No 3: We recommend that USAID's Chief Financial Officer coordinate with the Office of Procurement to:

3.1 Develop a standardized documentation requirement for estimating accounts payable in Washington and at its missions on a timely basis.

3.2 Issue detailed guidance and instructions for reviewing and reporting to the Office of Procurement those obligations that are available for deobligation.

[5] MACS is an activity-based system for recording budget allowance, projects, operating expense, and accounting transactions at USAID's missions.

3.3 Issue detailed guidance requiring its Cognizant Technical Officers to maintain adequate documentation supporting the accounts payable as required by the Automated Directive System.

USAID's Process for Reconciling and Classifying Advances to Grantees Needs Improvement (Repeat Finding)

As of September 30, 2002, USAID had not recorded about $88 million in expenses related to advance liquidations submitted by grantees. Progress has been made in this area. Our FY 2001 GMRA audit identified about $155 million in expenses related to advances that were not recorded by USAID. However, this condition continues to occur because USAID does not have a worldwide integrated financial management system that includes procurement and assistance data. Therefore, obligations established for advances that are managed by DHHS must be manually entered into the Payment Management System (PMS). Nevertheless, USAID has recognized liquidations for about $66 million of the $88 million through its Accrual Reporting System. The remaining $22 million was not recorded as expense or an accrual made by USAID. Consequently, the obligations related to the $88 million had not been entered into the PMS and the expenses were not recognized and reported by DHHS. USAID subsequently made an adjustment to record the $22 million as expenses.

General Accounting Office (GAO) "Standards for Internal Controls in the Federal Government" requires that transactions and other significant events should be promptly recorded and properly classified. This guidance further states that transactions must be promptly recorded if pertinent information is to maintain its relevance and value to management in controlling operations and making decisions.

This applies to:

- The entire process or life cycle of a transaction or event and includes the initiation and authorization.
- All aspects of the transactions while in process.
- Its final classification in summary records.

Obligations for grant agreements and/or modifications must be entered into DHHS's Payment Management System so that grantees can report advance liquidation expenses related to the corresponding obligations. As of September 30, 2002, USAID had not recorded in the Payment Management System, approximately 105 grant agreements and/or modifications with a net value of about $253 million. USAID has since recorded 78 of the 105 grant agreements and/or modification valued at $112 million. Therefore, at the time of our review, USAID still had about $144 million that was not recorded in the Payment Management System. This occurred because USAID does not have a worldwide integrated financial management system that links its accounting, procurement, and assistance systems as well as all other activities performed by USAID. Additionally, copies of new grants and/or modifications issued by USAID's Office of Procurement were not submitted to the Office of Financial Management in a timely manner.

One USAID official stated that ten business days would be a reasonable amount of time for the Contracting Officers to submit grants and/or modifications (needing to be entered into the Payment Management System) to the Office of Financial Management and that ten business days would also be a reasonable amount of time for the Office of Financial Management to record the grants and/or modifications into the DHHS Payment Management System. Because USAID does not have an integrated financial management system, there is no assurance that all obligations managed by DHHS established for USAID's grants were submitted to USAID's Office of Financial Management, Cash Management and Payment Division.

Proper classification of information on transactions and events refers to the organization and format of information on summary records from which reports and statements are prepared. Because USAID does not have a worldwide integrated financial management system that includes procurement and assistance data, this internal control deficiency continues to exist. Therefore, we are restating the following recommendations to USAID management:

Recommendation No. 4: We recommend that the USAID Chief Financial Officer in coordination with the Office of Procurement, establish procedures to ensure that all new grant agreements and/ or modifications are submitted to its Cash Management and Payment Division within ten business days after their execution.

Recommendation No. 5: We recommend that the USAID Chief Financial Officer establish procedures for the Cash Management and Payment Division to enter all new grants and/ or modifications in the Payment Management System within ten business days after receiving them.

Unliquidated Obligations Were Not Always Analyzed and Deobligated as Necessary (Repeat Finding)

USAID records showed unliquidated obligations that may no longer be needed for their original obligation purpose. This occurred because, as of September 30, 2002, USAID had not completed its process for reviewing, analyzing, and deobligating unneeded obligations. As a result, as of September 30, 2002, there still remain about $153 million in unliquidated obligations that had no payment activity against them for more than one year. This is a reduction from the $186 million in unliquidated obligations that our FY 2001 GMRA audit identified. The $153 million in unliquidated obligations, identified by our FY 2002 GMRA audit, may no longer be needed for its original obligation purpose.

USAID's Automated Directive System (ADS) 621 states, "As part of the annual budget process, Assistant Administrators, independent Office directors, and Mission directors must certify whether unexpended balances are necessary for on-going programs." The directive further requires that in conducting reviews of obligations to identify funds that must be deobligated, obligation managers and others involved in the review process should consider circumstances that could result in excessive or unneeded obligation balances. According to ADS 621, where there is an unobligated balance that has remained unchanged for 12 months or more and there is no evidence of receipt of services/goods during that same 12-month period, the situation may reflect that remaining balances are no longer needed.

As of September 30, 2002, USAID's internal control process as it relates to the management of unliquidated obligations needs improvement. Specifically, there were about $153 million in unliquidated obligations that had no activity during FY 2002 and may not be needed for the original obligation purpose. USAID is in the process of reviewing the unliquidated obligations through its Business Transformation Executive Committee (BTEC) working group led by the Office of Financial Management. The working group reviewed 576 awards that ended on or before September 30, 2000 and had unliquidated obligations of $100,000 or more. As a result of the group's review, USAID deobligated about $100 million of the reported unliquidated obligations related to the 576 awards. We have also seen improvements in USAID's missions in their efforts to reduce their old unliquidated obligations

According to USAID officials, this occurred because USAID's current disbursement process does not match contractor or grantee-reported expenses and the subsequent payments with the specific fund cite that gave rise to those payments. Consequently, unliquidated obligations may be carried forward each year even after the payments that would have fully depleted them were made by USAID.

USAID has implemented an Accrual Reporting System to require review and approval of a system-generated accounts payable based on the unliquidated obligations. If this system is maintained as intended, it should enable USAID to routinely identify obligations that could be deobligated. Because USAID is in the process of reviewing the unliquidated obligations through its working group, and we have also seen improvements in the missions to reduce their old unliquidated obligations, we are not including a recommendation for corrective action by USAID management.

USAID's Process for Recognizing and Reporting Its Accounts Receivable Needs Improvement (Repeat Finding)

As of September 30, 2002, USAID continues to lack an integrated financial management system with the ability to account for its worldwide accounts receivable. This internal control weakness was reported in our previous GMRA reports. Because this systemic weakness continues to exist, we have included it as a material weakness in this GMRA audit report. Because USAID lacked a worldwide integrated system and had not established and implemented policies and procedures for its missions and the Office of Procurement to immediately recognize accounts receivable, USAID had to rely on data calls to its missions to determine the year-end accounts receivable balance. Therefore, USAID has no assurance that the amount reported for accounts receivable in its FY 2002 financial statements represents all receivables due to USAID. USAID management has contended that accounts receivable is not material to the financial statements. We do not believe that this amount would cause a material misstatement to the financial statements. During our FY 2003 GMRA audit, we will expand our audit work in this area.

SFFAS No. 1 requires that accounts receivable be recognized (recorded) when a claim to cash or other assets has been established. The establishment of accounts receivable cannot occur on a timely basis unless there are adequate procedures for recognizing and reporting them at the end of each accounting period.

Currently, USAID records accounts receivable after the missions and the Office of Procurement notify the Office of Financial Management that employees, vendors, contractors, and grantees owe funds to USAID. This notification to the Office of Financial Management occurs when the receivables are significantly past due ranging from 90 to 2,190 days. Because USAID has not yet developed an integrated financial management system that would allow for the immediate recognition of accounts receivable, this systemic problem continues to exist. Therefore, we are restating the following recommendations to the USAID Office of Financial Management:

Recommendation No. 6: We recommend that the USAID Chief Financial Officer develop and implement a system for the immediate recognition and reporting of all accounts receivable that are due to USAID at the end of each accounting period.

Recommendation No. 7: We recommend that the USAID Chief Financial Officer, in coordination with the Office of Procurement, develop and implement procedures to ensure that the necessary information is forwarded to the Office of Financial Management for the establishment of accounts receivable whenever agreement is reached with contractors and grantees that funds are owed to USAID.

USAID’s Process for Calculating Its Credit Program Allowances Needs Improvement

USAID had a significant decrease in the net loan receivable balances for FY 2002. The reduction was caused by a significant increase in the FY 2002 allowance amounts from what was calculated in FY 2001. For FY 2002, USAID calculated and reported about $6.8 billion in allowances for its credit programs. Of this amount, about $5.9 billion was for the Direct Loan program and about $947 million for the Urban Environment loan guarantee program. These allowances were significantly higher than the FY 2001 calculated allowance amounts of about $4.5 billion. We requested that USAID’s Loan Management Division (LMD) provide us with reasons for the significant increases in the allowance amounts for FY 2002. We also requested that the Division recalculate the allowance for FY 2001 and provide additional disclosure in the FY 2002 financial statements for the $2.3 billion increase in the allowance calculation between FY 2001 and FY 2002.

As a result of our request, LMD had additional discussions with OMB about the formula and rates used in the calculation of the allowances for USAID’s direct loan and loan guarantee liabilities. Based upon these discussions, LMD discovered that OMB did not provide the information required to correctly calculate the allowances. Further, USAID staff who knew that OMB’s formula and rate changes caused significant decreases in the FY 2002 subsidy expenses did not inform LMD of those changes. However, LMD was aware that OMB had changed its subsidy formula and methodologies in FY 2001 but LMD did not know the details of the changes, nor had it assessed the impact of the changes on the yearend calculation of allowances for the guaranteed loans. The original allowance calculation for FY 2002 resulted in a significant increase over the FY 2001 calculated allowances.

Using the revised OMB formula and rates, LMD correctly recalculated the FY 2002 allowances and loan guarantee liability amounts. This resulted in a decrease of about $2.8 billion in the direct loan allowance and a decrease of about $619 million in the loan guarantee liability for a net change of about $3.5 billion in amounts due to the U.S Treasury for FY 2002.

GAO’s Internal Control Standards state that pertinent information should be identified, captured, and distributed so that individuals can perform their duties efficiently. Further, effective communication is necessary and should occur across the organization. The standards further state that, in addition to internal communications, management should ensure that adequate means of communication exist with external parties who may have a significant impact on the Agency achieving its goals. Finally, the internal control standards require management at the functional or activity level to compare actual results and analyze significant differences.

Because USAID had not implemented an effective process for calculating its credit program allowance for FY 2002—a process that would have resulted in a reasonable presentation of the net credit program balances—we are including the following recommendation to USAID management:

Recommendation No. 8: We recommend that USAID's Chief Financial Officer establish procedures to:

8.1 Inform all credit program personnel of changes in the government policies and procedures that may have an impact on its credit and loan programs.

8.2 Require an assessment of the impact on the financial information presented in internal and external reports.

8.3 Conduct second-party reviews of final credit program and loan balance amounts at the end of the fiscal year before the annual financial statements are prepared.

Reportable Conditions
USAID's Monthly and Year-end Closing Procedure Needs Improvement

USAID's financial statements, accompanying footnotes, and worksheets were difficult to audit. On October 24, 2002, the Office of Inspector General received the unadjusted trial balance for FY 2002. USAID informed us that this was the date the general ledger was officially closed. However, the general ledger was not closed on that date. Additionally, USAID has not implemented the manual process of closing the general ledger that would close the accounting period; rather, it has established a system for only a few employees to make changes to the general ledger.

According to JFMIP, "General Ledger Management Function," with functional management of the general ledger, the system should *close accounting periods and prohibit subsequent postings to the closed periods*. The closing of an accounting period provides the Agency with the capability to automatically determine an accounting period's opening balances based on the prior accounting period's closing balances, without user intervention or adjustment.

Since October 24, 2002, we have received unadjusted trial balances dated November 15, 2002, November 17, 2002, and finally November 27, 2002. Our analysis of these trial balances showed that there were many changes to general ledger accounts at each of the above dates. Also, because the system was not consistently closed on a monthly basis, expenses recorded on November 18, 2002, were for transactions made in prior accounting periods as early as October 2001. The FY 2002 adjusting journal entries should have supported the changes in the general ledger. However, to date the changes in USAID's system have not been documented. In addition, we were provided footnotes and adjusting journal entries in intervals, which made it difficult to follow all the changes that were made to the information in USAID's accounting system.

According to the USAID official, USAID did not close its general ledger on a monthly basis. This decision was made by management because not all financial data was entered in the accounting system in a timely manner. Because all prior accounting periods remained open throughout the fiscal year, USAID employees were able to make changes and adjustments at any given time. These adjustments could be officially made through authorized journal vouchers, or they could have been made unofficially to transactions without authorization and without an audit trail.

Because USAID did not close its general ledger monthly, the information on the Standard Form (SF)-224, Statement of Transactions is not readily identified to a specific accounting period. In addition, the SF-6653, Undisbursed Appropriation Account Ledger cannot be readily reconciled with USAID's information. Consequently, many year-end adjustments and unsupported general ledger changes and adjustments were needed. Therefore, we are making the following recommendation:

Recommendation No. 9: We recommend that the Chief Financial Officer establish written procedures to:

9.1 Close monthly accounting periods on the dates established by the U.S. Treasury and prepare adjusting journal entries for any changes, corrections, or adjustments made after an accounting periods is closed.

9.2 Establish final dates for entering transactions into the general ledger before monthly closings. The final dates should be provided to all employees responsible for entering transactions that may affect the general ledger.

USAID's Controls and Management of Certain Computer Equipment at Its Missions Need Improvement

The OIG determined that USAID's controls and management of certain computer equipment at its missions needs improvement. During our FY 2002 GMRA audit at selected missions, the OIG determined that 6 of the 13 selected missions had two pieces of computer equipment: Reduced Instruction Set Computer (RISC) System 6000 R-20-Lan Server, with a cost of $112,507 each, and an IBM subsystem cabinet with a cost of $42,844 each (total cost of $155,351). Both were used for the New Management System. The two pieces of computer equipment were purchased in FY 1996 and have been fully depreciated. The computer equipment was included in the inventory of non-expendable property reported by those missions. Another mission had the items on their property inventory, but the items could not be located. Furthermore, other missions, not included in our sample, also reported the computer equipment on the data call from Washington as part of their non-expendable property.

USAID Automated Directives System 629.3.5, "Disposal of Capitalized PP&E," requires that Property, Plant and Equipment (PP&E) that no longer provides service because it has suffered damage, become obsolete in advance of expectations, or is identified as excess must be removed from the general ledger accounts, retired, and removed from service. In addition, the value of such property and the accumulated depreciation must be removed from the financial records.

The computer equipment was included in inventory and non-expendable property because USAID did not inform its missions to segregate and dispose of non-expendable property that was no longer needed. As a result, USAID FY 2002 PP&E and the related depreciation were overstated by about $932,106. Furthermore, because other missions that were not included in our audit sample had the computer equipment in their inventory and included them in their data call, the related general ledger account was overstated. Therefore, we are making the following recommendation:

Recommendation No. 10: We recommend that the Chief Financial Officer coordinate with the Office of Overseas Management Support and establish a process for all missions to dispose of and remove from their respective non-expendable property inventories and financial records equipment that is no longer needed.

USAID's System for Preparing Management's Discussion and Analysis (MD&A) Needs Improvement

OMB Bulletin No. 01-02 requires the OIG to (a) obtain an understanding of the components of internal controls relating to the existence[6] and completeness[7] assertions relevant to the performance measures included in the MD&A and (b) report on those internal controls that have not been properly designed and placed in operation.

The MD&A is a narrative overview, prepared by management, which describes the reporting entity and its mission, activities, program and financial results, and financial condition. The Statement of Federal Financial Accounting Standards (SFFAS) No. 15, Management's Discussion and Analysis, requires the MD&A to be included in each annual financial statement as required supplementary information. OMB Bulletin No. 01-09 provides additional guidance for preparing the MD&A.

Based on a limited review of USAID's system to collect and report performance information in the draft MD&A, the OIG identified the following weaknesses:

- USAID's current system does not allow for reporting FY 2002 performance results by USAID's operating units until FY 2003. The majority of the performance information contained in the draft FY 2002 MD&A was based on Annual Reports submitted by USAID operating units in Spring 2002, reporting on performance data from FY 2001 or earlier. The OIG reported this deficiency in timeliness in prior years. There is an outstanding OIG

[6] This management assertion deals with whether information included in the MD&A actually occurred during the given period.

[7] This management assertion deals with whether all performance results which should be presented have been included.

recommendation[8] calling on USAID to establish procedures to ensure that (1) operating units submit fiscal year performance results in time for MD&A reporting and (2) the results that are reported in the MD&A section of USAID's financial statements and Annual Performance Report relate to the fiscal year under review.

- According to OMB Circular A-11, Section 200, a final 2002 performance plan should have been sent to Congress by April 2001. USAID did not prepare an Annual Performance Plan for FY 2002. Instead, it issued one for FY 2003 in August 2002 and noted that the plan would also apply retroactively to FY 2002. As a result, except for a few cases, the draft MD&A did not contain a clear picture of USAID's planned performance goals for FY 2002 and therefore did not include a comparison of planned goals with actual results for FY 2002, as required by OMB Bulletin No. 01–09.

- The draft MD&A included the USAID operating units' self-assessments of progress (pertaining, as explained above, to years prior to 2002) toward meeting certain strategic objectives. Several OIG audits at selected USAID operating units over the past year have identified deficiencies in operating unit performance measurement systems. These deficiencies—such as not performing required data quality assessments—could result in reporting unreliable performance information or incorrectly assessing progress toward meeting certain strategic objectives. According to USAID, approximately 1,300 employees have been trained in performance measurement and strategic planning during the last year and one-half. USAID management believes this training will improve the operating units' performance reporting.

- Except for a few cases, the draft MD&A did not contain financial information to relate costs to results. There was not a clear linkage to cost categories featured in the Statement of Net Costs. Therefore, the cost efficiency or cost effectiveness of obtaining results could not be determined.

In conclusion, as the OIG reported in previous years, USAID needs to improve its system for collecting, summarizing, and preparing performance information included in the MD&A. Specifically, USAID needs to revise its current system so that the MD&A contains a clear picture of USAID's planned performance goals/targets for the current year and a comparison of these goals with actual results for the current year. We did not include a recommendation in this report regarding the MD&A, as we intend to address the larger issue of performance reporting in a separate audit report.

This report is intended solely for the information and use of the management of USAID, OMB and Congress, and is not intended to be and should not be used by anyone other than these specified parties. However, this restriction is not intended to limit the distribution of this report, which is a matter of public record.

Office of Inspector General
January 24, 2003

[8] From Reports on USAID's Financial Statements, Internal Controls, and Compliance for Fiscal Years 1997 and 1996, Audit Report No. 0-000-98-001-F, dated March 2, 1998.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

Did USAID comply with laws and regulations that could have a direct and material effect on the financial statements, and with any other applicable laws and regulations?

We have audited the financial statements of USAID for the fiscal year ended September 30, 2002 and have issued our report thereon. We conducted the audit in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the Office of Management and Budget (OMB) Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements."

The management of USAID is responsible for complying with laws and regulations applicable to USAID. As part of obtaining reasonable assurance about whether USAID's financial statements are free of material misstatement, we performed tests of USAID's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Also, we tested certain other laws and regulations specified in OMB Bulletin No. 01-02, including the requirements contained in the Federal Financial Management Improvement Act (FFMIA) of 1996, the Computer Security Act of 1987, and the Debt Collection and Improvement Act of 1996. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to USAID.

The results of our tests of compliance with laws and regulations described in the preceding paragraph exclusive to FFMIA[9] disclosed instances of noncompliance with laws and regulations that are required to be reported under Government Auditing Standards and OMB Bulletin No. 01-02.

Under FFMIA, we are required to report whether USAID's financial management systems substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803(a) requirements.

The results of our tests disclosed instances, described below, in which USAID's financial management systems did not substantially comply with Federal financial management system requirements, Federal Accounting Standards, and the U.S. Standard General Ledger at the transaction level.

Nature, Extent, and Causes of Noncompliance

FFMIA was passed to improve Federal financial management by ensuring that Federal financial management systems provide reliable, consistent, financial data from year to year. The Act requires each agency to implement and maintain financial management systems that comply substantially with:

- Federal financial management system requirements.
- Applicable Federal Accounting Standards.
- The United States Government Standard General Ledger at the transaction level.

Office of Management and Budget Circular A-127, "Financial Management Systems," prescribes policies and standards for agencies to follow in developing, operating, evaluating, and reporting on financial management systems. Section 7 of the Circular identifies which requirements Federal financial systems should meet. In January 2001, the Office of Management and Budget issued "Revised Guidance for the Federal Financial Management Improvement Act" to supplementing Office of Management and Budget Circular No. A-127 to help determine whether financial systems substantially comply with FFMIA requirements. That guidance identifies various requirements that an agency must meet, including those concerning Joint

[9] FFMIA requires reporting on whether an agency's financial management systems substantially comply with the FFMIA section 803(a) requirements relating to Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger published by the Department of the Treasury. FFMIA imposes additional reporting requirements when tests disclose instances in which agency systems do not substantially comply with the foregoing requirements.

Financial Management Improvement Program systems.

Since 1997, the Office of the Inspector General has reported that USAID's financial management systems did not substantially comply with system requirements under FFMIA.[10] In the past, the reason for USAID's noncompliance was that the Agency's core financial management system[11] did not operate effectively. Therefore, USAID had to rely on a combination of outdated, legacy systems; informal, unofficial records; and a core financial management system—which suffered from technical and operational problems.

USAID has been pursuing an effort to modernize the Agency's systems and meet FFMIA requirements. Specifically, in December 2000, USAID implemented a new core financial system in Washington. In addition, during FYs 2001 and 2002, USAID completed efforts to upgrade or interface five major systems (which process transactions outside of the core financial system) to the core system. Those systems were:

1. Acquisition and Assistance System (procurement system),
2. National Finance Center Payroll System (payroll system),
3. Management Accounting and Control System,
4. Letter of credit grant processing system, and
5. Loan processing system.

Federal Financial Management System Requirements

According to FFMIA, Federal agencies must implement and maintain financial management systems that comply substantially with Federal financial management system requirements. These requirements state that Federal agencies shall ensure that security over financial management information systems is in accordance with OMB Circular A-130, Appendix 3. Further, the guidance states that users should have on-line access to the status of funds or receive daily reports on the status of funds in order to perform analysis or decision-making.

Although, USAID has enhanced its financial systems over the past two years, further improvements are needed to:

- Integrate the systems to further strengthen funds control.
- Strengthen computer security controls.
- Further enhance reporting capabilities.

As a result, USAID's financial system may not provide users with complete, accurate, timely financial information needed for decision-making purposes. The following paragraphs discuss some of the progress USAID made during FY 2002 as well as some of the problems that continued to exist.

Funds Control - According to Office of Management and Budget Circular No. A-11, Preparation, Submission, and Execution of the Budget, each Federal agency is responsible for establishing a funds control system that will ensure that the agency does not obligate or expend funds in excess of those appropriated or apportioned. In addition, the Circular states that at year-end multi-year funds not obligated that remain available must be reapportioned in the upcoming fiscal year.

In February 2002, the OIG reported two problems that USAID's core financial system had with respect to funds control. USAID was aware of these problems and took some action to correct these deficiencies, as described below.

First, the OIG reported that USAID's system did not properly display the funding available after appropriation transfer transactions.[12] Although the system prohibited a user from obligating more funds than apportioned, it displayed an incorrect available amount at the appropriation level after the users processed appropriation transfers. In March 2002, USAID applied a fix to its core financial system, correcting the calculation of available amount after an appropriation transfer, thereby correcting this problem.

Second, the OIG reported that USAID's system did not roll up multi-year

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[10] Reports on USAID's Consolidated Financial Statements, Internal Controls, and Compliance for Fiscal Year 2000 (Audit Report No. 0-000-01-006-F, February 26, 2001); Reports on USAID's Consolidated Financial Statements, Internal Controls, and Compliance for Fiscal Year 1999 (Audit Report No. 0-000-00-006-F, February 18, 2000); and Audit of the Extent to Which USAID's Financial Management System Meets Requirements Identified in the Federal Financial Management Improvement Act of 1996 (Audit Report No. A-000-98-003-P, March 2, 1998).

[11] Called the New Management System

[12] An appropriation transfer occurs when funds are received from or given to another Federal agency or another appropriation within USAID.

unobligated balances, allowing the funds to remain available for obligation. In June 2002, USAID upgraded its system to correct the roll-up of unobligated balances at year-end. This upgrade provided the Agency with a means to automatically roll up uncommitted funds at any point during the fiscal year. The upgrade also included new accounting events[13] that allowed the budgetary accounts in the general ledger to be updated. However, the posting models[14] associated with two accounting events were incorrect, causing an abnormal balance in a general ledger account. USAID made appropriate adjustments to the general ledger account and plans to correct the posting models.

However, because USAID did not have an integrated financial management system and used a separate system to process obligations for its overseas missions. The appropriation amount displayed as available after the roll-up was overstated by the amount of the mission obligations. To compensate for this weakness, USAID allowed only a few users to apportion funds. Further, those users had access to "cuff records"[15] to track mission obligations and determine the correct amount available for apportionment. Because this issue should be corrected with the deployment of the core financial system to the overseas missions, we will not make any recommendations.

Computer Security Weaknesses – Office of Management and Budget (OMB) Circular A-130, Appendix III, requires agencies to implement and maintain a program to assure that adequate security is provided for all agency information systems. However, during recent audit work, the OIG found that USAID has not yet fully developed and implemented an Agency-wide security program for information systems as required. Further, the OIG reported that USAID's general controls[16] had serious weaknesses. Although USAID has begun to take corrective actions to address these weaknesses, the OIG determined that serious general control weaknesses continue to exist. Such weaknesses place USAID's financial management systems at significant risk of unauthorized disclosure and modification of sensitive data, misuse or damage of resources, or disruption of critical operations. As a result of these weaknesses, USAID was not substantially compliant with Federal financial management system requirements under FFMIA.

Reports - According to JFMIP-SR-02-01, Core Financial System Requirements, Reporting Function: "…the core financial system must provide for ready access to the information it contains. Information must be assessable to personnel with varying levels of technical knowledge of systems. Personnel with relatively limited knowledge…must be able to access and retrieve data with minimal training on the system."

However, in February 2002 the OIG reported that users were not always able to readily obtain data to manage Agency operations. This occurred because the system was operational for a short period and Agency resources were focused on implementation and operation rather than reporting. As a result, some system users maintained, "cuff records" to supplement the core financial system.

Although some users still maintain "cuff records" to supplement USAID's financial management systems, the Agency has made progress in providing users access to needed information. For example, among other things USAID:

- Enhanced the MACS Auxiliary Ledger data repository allowing mission transactions to be viewed at the strategic objective and operating unit levels.
- Established a web-based report portfolio that allows users to generate financial reports from USAID/Washington and mission data.
- Developed a listing of new requirements as well as current reports needing enhancement.

Further, USAID prioritized and approved three reports for development. To date, two of the three reports are currently available for users, while the Agency continues to develop the third.

Because USAID continues to address the need to provide useful information to system users, we are not making a recommendation. The OIG will continue to monitor USAID's progress in improving its reporting capabilities.

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[13] An accounting event links accounting entries with updates to budgets, plans, and projects.

[14] Posting models are debit and credit general ledger account pairs associated with a predefined accounting transaction.

[15] For this audit, "cuff records" are defined as informal, unofficial records of USAID activities.

[16] General controls are the structure, policies, and procedures that affect the overall effectiveness and security of computer operations.

Federal Accounting Standards

Standard No. 1, Accounting for Selected Assets and Liabilities – USAID's advances and accounts receivable did not comply with Statement of Federal Financial Accounting Standards (SFFAS) No. 1, as discussed below.

Advances – USAID did not recognize (record) all expenses related to advance liquidations during FY 2002. During FY 2002 USAID did not record about $22 million in expenses (advance liquidations). Several USAID grantees could not report their related expenses because the corresponding obligations were not recorded in the Department of Health and Human Services' Payment Management System. USAID's lack of an integrated financial management system also hindered expense reporting. Therefore, obligations established for advances to grantees that are managed by DHHS must be manually entered into the Payment Management System.

SFFAS No. 1 states that federal agencies should record advances as assets when goods or services are received, contract terms are met, progress is made under a contract, or prepaid expenses expire. The standard further states that amounts of advances that are subject to refund should be transferred to accounts receivable.

USAID recorded a $22 million year-end adjusting journal entry to decrease advances and increase expenses for these advance liquidations that were not submitted by grantees and processed in the system during the fiscal year.

Accounts Receivable – USAID does not have an adequate system or process to recognize its worldwide accounts receivable in a timely manner. USAID is only aware of its receivables when its Office of Procurement, missions, and contractors/grantees report them to its Office of Financial Management. This situation occurred because USAID lacked coordination and integration of various systems, an adequate policy and procedural guidance, and, as previously stated, an integrated financial management system.

SFFAS No. 1 requires that a receivable be recognized (recorded) when a claim to cash or other assets has been established. The establishment of a receivable cannot occur on a timely basis unless there are adequate procedures for recognizing and reporting accounts receivable at the end of each accounting period. USAID did not comply with the accounts receivable aspects of SFFAS No. 1.

Standard No. 4, Managerial Cost Accounting Concepts and Standards for the Federal Government – USAID did not comply with one of the fundamental elements of SFFAS No. 4 that requires establishing responsibility segments that match costs with outputs and requires the reporting of full costs of outputs. In addition, USAID does not have a system to identify and report all costs against the appropriate Agency goals. USAID did not record and report about $384 million in program expenses in accordance with its established methodology due to missing data, inefficient processing, and unreconciled information.

The methodology requires that program costs be directly expensed at the intermediate output level and rolled up to the net cost reporting level of Agency goals. USAID did not record and report the $384 million in accordance with that methodology on its FY 2002 Statement of Net Costs. Instead, USAID allocated those costs based on a predetermined percentage rate. The $384 million in program expenses may not have been properly recorded against the appropriate Agency goals in USAID's Fiscal Year 2002 Statement of Net Costs. The information needed to properly allocate these expenses was not available to USAID at the time the financial statements were prepared.

Additionally, USAID had about $22 million in expenses associated with the advances managed by DHHS that were not identified and recorded by USAID during FY 2002. These expenses were not reported by DHHS because the related obligations for which the expenses were incurred were not recorded in the Payment Management System. According to the agreement established between USAID and DHHS, all awards to grantees for advancing funds must be entered into the Payment Management System before the liquidation of the advance funds can occur.

Standard No. 10, Accounting for Internal Use Software – In February 2002, the OIG reported that USAID did not accurately compile and report the proper amount for capitalized software for FY 2001. Specifically, the amount did not include costs funded in prior years for services received in FY 2001 (accrual basis of accounting). Furthermore, USAID did not capitalize cost by fiscal year, did not have all the required support documentation readily available, and did not reconcile the property records with the financial records.

According to Federal Accounting Standards Advisory Board (FASAB) 10, Federal agencies are required to capitalize the cost of internal use software, whether software is commercial off-the-shelf, contractor-developed, or internally developed. The capitalized cost for commercial off-the-shelf software should include the amount paid to the vendor for the software. For contractor-developed software, capitalized cost should include the amount paid to a contractor to design, program, install, and implement the software. USAID's policy is to capitalize software that exceeds a $300,000 threshold.

During FY 2002, USAID developed detailed procedures to meet the requirements of the standard. By implementing these procedures, USAID was able to determine the proper costs to report. For FY 2002, $4.2 million was capitalized in accordance with the requirements of Standard 10, Accounting for Internal Use Software. Therefore, USAID was in compliance with the Standard for FY 2002.

Standard No. 15, Management's Discussion and Analysis (MD&A) – According to SFFAS 15, each general purpose federal financial report should include financial statements and a section devoted to the MD&A. SFFAS 15 states that the MD&A is required supplementary information and should include, among other things, information on performance goals and results that relate to the financial statements.

Based on our review of a draft of the MD&A, dated December 2, 2002, The OIG determined that the draft MD&A did not provide a clear and concise description of program performance that related to the financial statements included in the Performance and Accountability Report. Specifically, the program results reported:

a. Represented, for the most part, program activities that took place prior to FY 2002.

b. Did not reflect the achievements of program funds expended during FY 2002.

Additionally, the draft MD&A contained few performance goals or targets for FY 2002.

United States Standard General Ledger at the Transaction Level

FFMIA requires agencies to implement and maintain systems that comply substantially with, among other things, the United States standard general ledger at the transaction level. This requires the agency's recording of financial events to be consistent with all applicable account descriptions and posting models/attributes reflected in the standard general ledger issued by the Financial Management Service, Department of the Treasury.

Core Financial System – The OIG previously determined that USAID did not substantially comply with the standard general ledger at the transaction level. In FY 2001, it was reported USAID did not record mission activities—accounting for approximately 52 percent of USAID's total net cost of operations—using the standard general ledger at the transaction level. This occurred because USAID recorded mission activities in the Mission Accounting and Control System—a computer-based system that did not have a standard general ledger chart of accounts. Instead, the Mission Accounting and Control System uses transaction codes to record transactions.

As a result, USAID cannot ensure that transactions are posted properly and consistently. Therefore, USAID needs to record mission activities using the standard general ledger at the transaction level to support financial reporting and meet requirements. However, until USAID deploys its core financial system worldwide, the Mission Accounting and Control System will continue to operate as the financial system for overseas missions.

In FY 2002, USAID conducted a business modernization study to identify opportunities for improving the Agency's financial management areas. That study recommended the accelerated deployment of the core financial system to the missions in order to comply with FFMIA. However, subsequent to that study, in a joint memorandum issued by the OIGs of the Department of State and USAID the OIGs recommended additional studies to consider the possibility of jointly deploying the system overseas as a means to maximize potential efficiencies. Consequently, such studies may impact the timeframe for deploying the core financial system overseas.

Feeder Systems – The Joint Financial Management Improvement Program "Framework for Federal Financial Management Systems" (FFSMR-0, January 1995) describes an interface as occurring when "one system feeds data to another system following normal business/transaction cycles." Further, interface linkages must be electronic unless the number of transactions is so small that it is not cost-beneficial to automate the interface.

USAID's Targets for Fiscal Year 2002*					
			Remediation Plan – September 2002		
	Remedy	Was Target Achieved?	Target Date	Revised Date	Comments
1	Conduct a study to make more effective use of capital planning, enterprise architecture, and modern business practices to modernize the Agency's business systems and accelerate deployment of Phoenix Agency-wide.	No, but only minor slippage	4th Qtr FY 2002	1st Qtr FY 2003	Schedule includes implementing the system in pilot missions in FY 2003 and further deployment in FY 2004 and FY 2005, based on the availability of adequate funding in the Capital Investment Fund. Additional studies are being sought to further maximize use of fund resources.
2	Implement electronic interfaces between Phoenix and feeder systems.	Yes	1st Qtr FY 2002	Completed	N/A
3	Implement Phoenix in Washington and MACS Auxiliary Ledger (MAL) enhancements to support Agency-wide financial reporting.	Yes	4th Qtr FY 2002	Completed	The Agency closed this at end of FY 2002. MAL Release 3.0 was deployed in July 2002. This provided a common accounting classification structure via crosswalks at the operating unit and Strategic Objective (SO) levels. The Consolidated Pipeline report was implemented in August 2002, which provides the ability to perform Agency-wide strategic objective-level reporting and allows users to make decisions at the operational level. USAID fully implemented the web-based reporting tool, Crystal Enterprise. The coordination of the web-based enterprise reporting tool implementation with the MAL Release 3.0 schedule delayed this remedy.
4	Implement further enhancements to MACS Auxiliary Ledger to fully implement crosswalk tables.	Yes	3rd Qtr FY 2002	Completed	In July 2002, the Mission Accounting and Control Auxiliary Ledger expanded its ability to crosswalk monthly field data to Phoenix operating units and SOs. More time for development and testing was required than anticipated.
5	Implement the Phoenix core financial system that calculates and reports accounts payable and accrual expenses.	Yes	1st Qtr FY 2002	Completed	The accrual process was implemented in Dec. 2001. The Accruals Report System was enhanced to post accrual information at both the contract and contract line level in July 2002. The development and testing process was longer than anticipated.
6	Update cost allocation model to allocate costs of Agency programs to the operating unit and strategic objective level for Washington and missions.	No, due to funding constraints	4th Qtr 2002	1st Qtr FY 2003	The Agency created a cost allocation model using Phoenix's Cost Allocation module. The model under its current form, allocates indirect costs recorded in the Management Bureau to benefiting bureaus. Using off-line cost allocation techniques, these costs are then allocated to strategic objectives, which are linked to Agency goals. In FY 2001, mission costs were directly assigned to an Agency goal without first being associated with strategic objectives. The final mapping between mission projects and strategic objectives was completed July 2002. As a result, the Agency is able to assign mission direct costs to strategic objectives and produce Statement of Net Cost. The cost drivers and allocation module will need to be updated to account for the missions' indirect costs when Phoenix is implemented in the field.
7	Update policies and procedures for billings, receivables and debt collection in the Agency's Automated Directives System.	Yes	3rd Qtr FY 2002	Completed	USAID's ADS Chapter 625 was updated in July 2002 to address due process demands, referral of debt to the U.S. Treasury, and reporting to consumer credit agencies.

* All the data in this table was not verified as part of the audit.

USAID uses two material feeder systems that have been automatically interfaced with the core financial system: (1) the letter of credit grant processing system and (2) the loan processing system.[17] These two feeder systems meet the Office of Management and Budget indicators used to decide whether the systems are in compliance with revised FFMIA requirements.

Remediation Plan

Office of Management and Budget Circular A-11 states that an agency that is not in compliance with FFMIA must prepare a remediation plan. The purpose of a remediation plan is to identify activities planned and underway that will allow USAID to achieve substantial compliance with FFMIA. Remediation plans must include the resources, remedies, interim target dates, and responsible officials. Further, the remediation target dates must be within three years of the date when the system was determined not to be substantially compliant.

According to USAID (and as shown in the table below), USAID achieved five of the seven remediation targets for FY 2002. Although USAID has made progress in becoming FFMIA compliant, the Agency did not fully meet two of the seven major targets established in USAID's remediation plan for completion in FY 2002. According to the remediation plan, two targets were revised and scheduled to be completed the next quarter.

In addition, in a joint Department of State-USAID OIG memorandum, the OIGs recommended additional studies to consider the possibility of jointly deploying the system overseas as a means to maximize Federal resources. Consequently, such studies may impact the timeframe for deploying the core financial system overseas and USAID's overall target of becoming substantially compliant with FFMIA.

Computer Security Act

The Computer Security Act of 1987 (Public Law No. 100-235) requires Federal agencies to protect information by (1) identifying sensitive systems, (2) developing and implementing security plans for sensitive systems, and (3) establishing a training program to increase security awareness and knowledge of accepted security practices. To further improve program management and evaluations of agencies' computer security efforts, the Government Information Security Reform Act (Public Law No. 106-398) was passed in October 2000.

Since September 1997, the OIG has reported that USAID did not implement an effective computer security program as required. In response to OIG audits, USAID has made substantial computer security improvements. For example, USAID:

- Upgraded its system software for USAID/Washington and most of its overseas missions, and, according to USAID management, USAID is ahead of schedule.
- Built a set of web-based surveys that migrate information directly into a formalized draft security plan.
- Developed on-line classes for the annual computer security awareness training and for new user training.
- Conducted certification and accreditation of its core financial system and Mission Accounting and Controls System at USAID/ Washington.
- Selected a new Information System Security Officer.
- Implemented practices to standard-ize the security configurations of computer operating systems.

Also, according to USAID, the Agency conducted a certification and accreditation of the General Support System and Mission Accounting and Controls Systems at nine overseas missions. In addition, USAID is revising its risk assessment methodology for determining the appropriate level of controls based on the evaluation of risk compared to the cost-benefit to be expected from reducing the risk.

However, recent audit work has shown that, although USAID has taken steps to improve computer security, more work is needed to ensure that sensitive data are not exposed to unacceptable risks of loss or destruction. As of September 30, 2002, USAID has stated it plans to correct this material weakness by September 2004. The OIG will continue to monitor USAID's

[17] Office of Management and Budget determined that these two systems met the definition of a feeder system.

progress to improve its computer security, and compliance with FFMIA and the Debt Collection and Improvement Act.

Debt Collection and Improvement Act of 1996

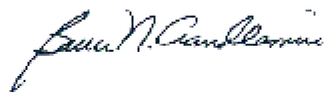
The Debt Collection Improvement Act of 1996 and the Federal Claims Collection Standards authorize USAID to:

1. Collect debts owed to the Agency by means of administrative offset.
2. Assess interest, penalties, and administrative costs on overdue debts against its debtors.
3. Contract for private collection services.
4. Disclose information on debts to credit reporting agencies.
5. Report compromises to the Internal Revenue Service.

USAID's Claims Collection Standards, 22 CFR 213, cover the due process rights of debtors and procedures for collecting delinquent debt.

USAID has not complied with all elements of the Debt Collection and Improvement Act of 1996 that require federal agencies to report to the Department of Treasury any receivables that should be included in the Treasury's offset program. This situation occurred primarily because USAID does not have an effective process for establishing accounts receivable.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.



Office of the Inspector General
January 24, 2003

MANAGEMENT COMMENTS AND OUR EVALUATION

We received USAID's management comments and suggested changes to the findings and recommendations included in our draft report. USAID management agreed with all findings and recommendations. Management commented that recommendation No. 5 and No. 6 could not be fully implemented until a worldwide integrated financial management system is deployed. We have evaluated USAID management comments on the recommendations and have reached management decisions on all ten recommendations. We have also made the suggested changes where deemed necessary. The following is a brief summary of USAID's management comments on each of the ten recommendations included in this report and our evaluation of those comments.

Recommendation No. 1

USAID management agreed with Recommendation No. 1 and commented that it will implement Recommendation Nos. 1.1 and 1.2 by June 30, 2003. We will review USAID's methodologies and automated posting process during our FY 2003 GMRA audit.

Recommendation No. 2

USAID management agreed with Recommendation No. 2 and commented that it will implement Recommendation Nos. 2.1 and 2.2 by October 1, 2003. During our FY 2003 GMRA audit, we will review USAID's guidelines for overseas missions and the process to reconcile the mission adjustment account in the general ledger to the cumulative amounts in the mission ledgers and resolve differences between those two ledgers.

Recommendation No. 3

USAID management agreed with Recommendation Nos. 3.1, 3.2, and 3.3 and commented that it issued improved guidance in January 2002, in the revision to the Automated Directive System No. 621, Obligations, that addresses the intent of this recommendation. Second, USAID will review documentation of Automated Directive System guidance for accounts payable to ensure that adequate guidance and instructions are in place and these recommendations are properly implemented. Lastly, it will implement this recommendation by March 31, 2003. We agree with USAID's management decision on Recommendation Nos. 3.1, 3.2, and 3.3. During our FY 2003 GMRA audit, we will review USAID's progress of reviewing unliquidated obligations and documentation of guidance that properly supports the implementation of this recommendation.

Recommendation No. 4

In regards to this recommendation, USAID management commented that there are still some problems with getting documentation from Grant Officers in a timely manner and that Grant Officers are not under the control of the Office of Financial Management. In addition, USAID commented that this recommendation was transferred to the Office of Financial Management to the Office of Procurement and that the Office of Procurement agreed to issue additional guidance to ensure that Grant Officers send the documentation to the Office of Financial Management within ten business days. We agree with their management decision on this recommendation and the revision to Recommendation No. 4 to identify the Office of Procurement taking this corrective action. Further, USAID commented that it implement this recommendation by March 31, 2003. During our FY 2003 GMRA audit, we will review USAID's progress of sending documentation to the Office of Financial Management and documentation of guidance that properly supports the implementation of this recommendation. USAID management commented that a new recommendation was not necessary. We included Recommendation No. 4 because we believed that action is needed by USAID's Chief Financial Officer to reduce the problem of not recording grants and/or modifications in the DHHS Payment Management System in a timely manner.

Recommendation No. 5

USAID management commented that the situation will likely continue until a worldwide integrated accounting system is deployed. Further, USAID commented that it continues to review the situation and will determine additional interim measures that can be implemented. Management commented that this recommendation is a duplicate from last year's report that was closed on September 30, 2002. During our FY 2002 audit, the OIG found that USAID established a system to enter new grants and/or modification in the DHHS Payment Management System in a timely manner. However, this system has not been fully implemented. For example, our FY 2002 audit found that USAID had not recorded 105 grants and/or modification valued at about $253 million in the DHHS Payment Management System. Therefore, we are restating this recommendation to bring this issue to management's attention again. USAID management commented that it plans to implement Recommendation No. 5 by March 31, 2003. We agree with the management decision on this recommendation and plan to review USAID's progress in recording grants and/or modification in the Payment Management System during our FY 2003 GMRA audit.

Recommendation No. 6

USAID management commented that it will review and update guidance on establishing and reporting on accounts receivable in the Automated Directive System No. 625, Accounts Receivable and implement this recommendation by June 30, 2003. We agree with this management decision regarding this additional action needed. USAID further commented that this recommendation duplicates Recommendation No. 4 in Audit Report 0-000-02-006-F and remains open because USAID does not have a worldwide integrated accounting system until Phoenix is deployed. However, USAID continues to rely on data calls to obtain accounts receivable data from overseas missions. During our FY 2003 GMRA audit, we will review USAID's progress of establishing and reporting accounts receivable.

Recommendation No. 7

USAID management agreed with Recommendation No. 7 and commented that it will consult with the Office of Procurement and expand and update the guidance under the Automated Directive System. USAID commented that it would implement this recommendation by June 30, 2003. We agree with the management decision on this recommendation and will review USAID's updated guidance and progress towards establishing accounts receivable in a timely manner.

Recommendation No. 8

USAID management agreed with Recommendation Nos. 8.1, 8.2, and 8.3 and commented that they plan to make appropriate revisions to the Automated Directive System guidance for credit programs and implement these recommendations by July 31, 2003. We agree with the management decision on this recommendation and will review USAID's updated guidance that supports the implementation of this recommendation.

Recommendation No. 9

USAID management agreed with Recommendation Nos. 9.1 and 9.2 and commented that it had encountered problems in monthly closing in the early months of the fiscal year due to conflicting priorities (e.g., development of the Congressional Budget Justification) and will carefully adjust dates for Mission Accounting Control System and Auxiliary Ledger closings and dates for monthly Phoenix closing. Despite the challenges, USAID agreed that monthly closing reduces the number of reconciling items. USAID expects to close this recommendation by June 30, 2003. We agree with the management decision on this recommendation. During our FY2003 GMRA audit, we will review USAID's progress in closing the monthly general ledger.

Recommendation No. 10

USAID management agreed to implement Recommendation No. 10 by March 31, 2003. During our FY 2003 GMRA audit, we will review USAID's progress in disposing of and removing computer-related properties from its non-expendable property inventories and financial records.

See **Appendix II** for USAID's management comments.

Appendix I: Scope and Methodology

Scope

This audit was conducted in accordance with generally accepted government auditing standards. Following those standards, we assessed the reliability of USAID's fiscal year (FY) 2002 financial statements, related internal controls, and compliance with provisions of applicable laws and regulations.

We obtained an understanding of the account balances reported in USAID's FY 2002 financial statements. The OIG determined whether the amounts were reliable, whether applicable policies and procedures were established, and whether they had been placed in operation to meet the objectives of the Federal Accounting Standards Advisory Board and other regulations. We considered all reasonable efforts made by USAID's management to improve its financial management and respond to our previous recommendations relating to the operations of its financial portfolio.

We statistically selected and reviewed FY 2002 financial statements and financial related activities at USAID/Washington and 16 USAID missions[18]. A planning materiality threshold of five percent and testing materiality threshold of three percent was calculated. These materiality thresholds were based on USAID FY 2001 total assets net of intergovernmental balances. Any amount over $75 million was considered material and included in our audit of USAID's FY 2002 financial statements. All exceptions were considered in the aggregate to determine whether USAID's FY 2002 financial statements were reliable.

With respect to the Management's Discussion and Analysis (MD&A), we did not perform an audit. However, we gained an understanding of USAID's system of collecting and reporting performance information. We did not assess the quality of the performance indicators and performed only limited tests to assess the controls established by USAID. Based on our limited tests of the measurement and presentation of performance results reported in the MD&A, we identified certain deficiencies that, in our judgment, adversely affected USAID's portrayal of performance results as required by prescribed guidelines.

Methodology

In accomplishing our audit objectives, we reviewed significant line items and amounts related to USAID's FY 2002 financial statements. These financial statements include Balance Sheet, Statement of Net Costs, Statement of Changes in Net Position, Statement of Budgetary Resources, and Statement of Financing. To accomplish the audit objectives we:

- Obtained an understanding of the components of internal control and assessed the level of control risk relevant to the assertions embodied in the class of transactions, account balances, and disclosure components of the financial statements.
- Performed tests of compliance with laws and regulations that could have a direct and material effect on USAID's financial statements including the Federal Financial Management Improvement Act.
- Conducted internal control reviews at USAID/Washington and 16 statistically selected missions and detailed audit tests of selected account balances at USAID/Washington and the 13 statistically selected missions.
- We statistically selected and confirmed outstanding advances to grantees and selected direct loan balances.
- Reviewed prior audit reports related to USAID financial activities and determined their impact on USAID's FY 2002 financial statements.
- Conducted meetings with USAID management, employees, contractors, grantees, and other parties associated with the information presented in the FY 2002 financial statements.
- Followed-up on previous financial statement audit recommendations and restated those recommendations that were not implemented by USAID management.
- Conducted a limited review of the internal controls related to the existence and completeness assertions relevant to the performance measures included in the MD&A. We also reviewed the December 2, 2002, draft of the MD&A.

[18] The 16 missions selected were USAID: Georgia, Hungary, Bulgaria, Bosnia, Egypt, Jordan, The Philippines, Ethiopia, Uganda, Serbia, Kosovo, Kazakhstan, Cambodia, Bolivia, Honduras, and Peru. USAID Bulgaria, Bosnia, and Serbia were visited only during the internal control phase of the audit.

Appendix II: USAID's Management Comments

USAID

U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

MEMORANDUM January 21, 2003

TO: AIG/A, Bruce N. Crandlemire

FROM: CFO, Susan J. Rabern /s/

SUBJECT: Management Response to Draft Independent Auditor's Report on USAID's Consolidated Financial Statements, Internal Controls, and Compliance for Fiscal Year 2002 (Report No. 0-000-03-001-C)

Thank you for the opportunity to respond to the draft report. We are extremely pleased that you are able to issue opinions on all of USAID's five principal financial statements. We appreciate the spirit of cooperation and level of dedication and effort between OIG and Agency staff that made this significant milestone possible.

Following are our management decisions regarding the proposed audit recommendations:

USAID's Process for Allocating Program Expenses on its Statement of Net Costs Needs Improvement

Recommendation 1: We recommend that the CFO establish requirements to:

1.1 Modify the manual distribution methodology, when there is no fund cite, to match expenses related to advances reported by the U.S. Department of Health and Human Services (DHHS); and
1.2 Ensure that USAID's automated posting process uses the DHHS posting methodology.

Management Decision: We agree to implement recommendations 1.1 and 1.2. Target completion date is June 30, 2003.

USAID's Process for Reconciling its Fund Balance with the U.S. Treasury Needs Improvement

Recommendation 2: We recommend that the CFO:

2.1 Provide detailed guidelines to overseas missions for writing off old reconciling items. These guidelines should include the reconciliation steps that should be completed before write-offs are requested by USAID missions.
2.2 Reconcile the mission adjustment account in the general ledger to the cumulative amounts in the mission ledgers and resolve differences between the general ledger and the mission ledgers.

Management Decision: We agree to implement recommendations 2.1 and 2.2. Target completion date is October 1, 2003.

USAID's Internal Controls Over its Accounts Payable Process Need Improvement (Repeat Finding)

Recommendation 3: We recommend that the CFO coordinate with M/OP and:

3.1 Develop a standardized documentation requirement for estimating accounts payable in Washington and missions on a timely basis.

3.2 Issue detailed guidance and instructions for reviewing and reporting to M/OP obligations that are available for deobligation.
3.3. Issue detailed guidance requiring CTO's to maintain adequate documentation supporting accounts payable as required by the ADS.

Management Decision: We agree to implement recommendations 3.1, 3.2, and 3.3. Improved guidance issued on January 17, 2002, in the revision to ADS 621, Obligations, addresses the intent of these recommendations. This revised and expanded guidance is the result of extensive work done this year by the Agency's deobligation/reobligation quick hit team. To ensure that these recommendations are properly implemented, we will review ADS 621, Obligations, ADS 630, Payables Management, and ADS 631, Accrued Expenditures, to ensure that adequate guidance and instructions are in place. Target completion date is March 31, 2003.

USAID's Process for Reconciling and Classifying Advances to Grantees Needs Improvement (Repeat Finding)

Recommendation 4: We recommend that the CFO, in coordination with the Director, M/OP, establish procedures to ensure that all new grant agreements and/or modifications are submitted to M/FM/CMP within ten business days after their execution.

Management Decision: Although this is a repeat finding from last year, we have shown significant improvement. As the draft report indicates, on September 30, 2002, USAID had not recorded approximately 105 grant agreements or amendments in the Payment Management System (PMS). The report indicates that since then, 78 of the 105 agreements have been recorded. This is a vast difference from the 278 agreements that had not been recorded at the end of FY 2001. In fact, recommendation 4 is a duplicate of recommendation 2.2 from last year's report, 0-000-02-006-F. This recommendation currently remains open despite improvements and the issuance of guidance (Contract Information Bulletin 01-18), because there are still some problems with getting documentation from grants officers in a timely manner. In an attempt to improve this process further, and because grants officers are not under the control of M/FM, the open audit recommendation was transferred from M/FM to M/OP on December 18, 2002. M/OP has agreed to issue additional guidance stressing the need to forward this documentation to M/FM within ten business days. For this reason, we do not believe that a new recommendation is necessary, but if the recommendation appears in the final audit report, it should be directed to M/OP, rather than to the CFO. The target closure date is March 31, 2003.

Recommendation 5: We recommend that the CFO establish procedures to ensure that M/FM/CMP enters all new grants and/or modifications in the Payment Management System within ten days of receiving them.

Management Decision: This recommendation is also a duplicate from last year's report. Recommendation 2.3 from audit report 0-000-02-006-F was closed on September 30, 2002, based on the following:

- A system was established to monitor the amount of time it took M/FM/CMP staff to enter data into the PMS. Between March and August 2002, the number of working days averaged between six and thirteen days. The monthly average was less than nine days.
- To facilitate the receipt of documentation, a central email box was set up so that grants officers could scan and email awards to FM, a drop box was set up in FM to receive hardcopy documentation, and web-based data gathering from grantees was established.
- As the draft report indicates, this situation will likely continue until a fully integrated, worldwide system is deployed. In the meantime, we will continue to review the problem and determine if there are additional interim measures that can be implemented. Target closure date is March 31, 2003.

USAID's Process for Recognizing and Reporting Accounts Receivable Needs Improvement (Repeat Finding)

Recommendation 6: We recommend that the CFO develop and implement a system for the immediate recognition and reporting of all accounts receivable that are due to USAID at the end of each accounting period.

Management Decision: This Recommendation duplicates recommendation 4 from audit report 0-000-02-006-F, which remains open. Last year we related that we cannot fully implement this recommendation until a worldwide integrated accounting system is deployed. Until then, we will continue to rely on data calls to obtain accounts receivable data for financial statement preparation. As an additional action, we will review and update guidance on establishing and reporting on accounts receivable in ADS 625, Administrative Accounts Receivable. Target closure date for this action is June 30, 2003.

Recommendation 7: We recommend that the CFO, in coordination with the Director, M/OP, develop and implement procedures to ensure that the necessary information is forwarded to M/FM for the establishment of accounts receivable whenever agreement is reached with contractors and grantees that funds are owed to USAID.

Management Decision: We agree to implement this recommendation. Although policy guidance exists in ADS 625, Administrative Accounts Receivable, and ADS 595, Audit Management Program, we will consult with M/OP and expand and update the guidance. The target closure date for this recommendation is June 30, 2003.

USAID's Process for Calculating Credit Program Allowances Needs Improvement

Recommendation 8: We recommend that the CFO establish procedures to ensure that:

8.1 All credit program and management personnel are cognizant of changes in government policies and procedures that may have an impact on credit and loan programs;
8.2 An assessment of the impact on the financial information presented in internal and external reports is required; and
8.3 Second party reviews are conducted for final credit program and loan balances amounts at the end of the fiscal year before the annual financial statements are prepared.

Management Decision: We agree to implement recommendations 8.1, 8.2 and 8.3 by making appropriate revisions to ADS 623, Financial Management of Credit Programs. Target closure date is July 31, 2003.

USAID's Monthly and Year End Closing Procedure Needs Improvement

Recommendation 9: We recommend that the CFO establish written procedures to:

9.1 Close monthly accounting periods on the dates established by the U.S. Treasury and prepare adjusting journal entries for any changes, corrections, or adjustments that are made after an accounting period is closed.
9.2 Include final dates for entering transactions into the general ledger before closing. The final dates should be provided to all employees responsible for entering transactions that may affect the general ledger.

Management Decision: We agree to implement recommendations 9.1 and 9.2. It has been our experience that the process of monthly closing has not been effective in the early months of the fiscal year, due to conflicting priorities during the first quarter, such as the development of the Congressional Budget Justification (CBJ) and focusing critical attention on the previous year's closing and audit. We will also need to carefully adjust dates for MACS and MAL postings when establishing procedures and dates for a monthly close. Despite the challenges, we agree that this is a good idea and will reduce the number of reconciling items. Target closure date is June 30, 2003.

USAID's Controls and Management of Certain Computer Equipment at Missions Need Improvement

Recommendation 10: We recommend that the CFO coordinate with the Office of Overseas Management Services (M/OMS) and notify all missions to dispose of and remove the Reduced Instruction Set Computer System 6000 R-20 Lan Server and the IBM subsystem cabinet from their respective non-expendable property inventories and financial records.

Management Decision: We agree to implement Recommendation 10. Target closure date is March 31, 2003.

Appendix III: Status of Uncorrected Findings and Recommendations from Prior Audits That Affect the Current Audit Objectives

Office of Management and Budget's (OMB) Circular No. A-50 states that a management decision on audit recommendations shall be made within a maximum of six months after issuance of a final report. Corrective action should proceed as rapidly as possible. The following audit recommendations directed to USAID remain uncorrected and/or final action has not been completed as of September 30, 2002. We have also noted where final action was taken subsequent to fiscal year-end but prior to the date of this report.

Audit of USAID's Compliance with Federal Computer Security Requirements Audit Report No. A-000-97-008-P, September 30, 1997

Recommendation No. 2: We recommend that the Acting Assistant Administrator for Management demonstrate support for an effective computer security program by taking action to direct the computer security program manager to develop and implement an effective computer security program by:

2.2 Ensuring that adequate resources and skills are available to implement the program.

2.4 Implementing disciplined processes to ensure compliance with the Computer Security Act of 1987 and OMB Circular A-130.

2.5 Bringing sensitive computer systems, including the New Management System, into compliance with computer security requirements by: (1) assigning security responsibility, (2) preparing security plans, (3) completing contingency/disaster recovery plans, (4) identifying technical controls, (5) conducting security reviews, and (6) obtaining management's authorization before allowing systems to process data.

Recommendation is pending final action by USAID.

Reports on USAID'S Financial Statements, Internal Controls, and Compliance for Fiscal years 1997 and 1996 Audit Report No. 0-000-98-001-F, March 2, 1998

Recommendation No. 7: We recommend that USAID:

7.1 Establish procedures to ensure (1) operating units report results for the year ended September 30 and (2) results reported in the overview section of USAID's financial statements and Annual Performance Report be clearly shown as achievements for that year.

Recommendation is pending final action by USAID.

Audit of Access and System Software Security Controls Over the Mission Accounting and Control System (MACS) Audit Report No. A-000-99-002-P, December 31, 1998

Recommendation No. 1: We recommend that the Director of IRM strengthen MACS' access and system software controls by developing and implementing standards for access and system software installation and maintenance. These standards should implement the Agency's policies pertaining to access and system software controls and thus, provide step-by-step guidance to mission system managers in the implementation of these controls. These standards should specifically address the controls described in GAO's Federal Information System Controls Audit Manual.

Recommendation is pending final action by USAID.

Report on USAID's Financial Statements, Internal Controls, and Compliance for Fiscal Year 1998 Audit Report No. 0-000-99-001-F, March 1, 1999

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

1.1 Determine the specific responsibility, authority, and resources needed to meet the requirements of the Chief Financial Officers Act of 1990, which assigns the Chief Financial Officer responsibility to: (1) develop and maintain an integrated accounting and financial management system that meets federal financial system requirements, federal accounting standards, and the U.S. Standard General Ledger at the transaction level; (2) approve and manage financial management system design and enhancement projects; and (3) develop a financial management system that provides for systematic measurement of performance.

Recommendation is pending final action by USAID.

Report to USAID Managers on Selected USAID Internal Controls for Fiscal Year 1998 Audit Report No. 0-000-99-002-F, March 31, 1999

Recommendation No. 10: We recommend that USAID's Bureau for Policy and Program Coordination:

10.2 Develop internal controls for identifying the full costs (USAID program and operating expenses and funding by other donors and host countries) of USAID programs, activities, and outputs.

Recommendation is pending final action by USAID.

Audit of USAID's Actions to Correct Financial Management System Planning Deficiencies Audit Report No. A-000-00-003-P, August 24, 2000

Recommendation No. 1: We recommend that the Chief Information Officer, in conjunction with the Capital Investment Review Board and the Chief Financial Officer:

1.1 Develop and implement a process for selecting information technology investments that meets requirements of OMB's guidelines for Selecting Information Technology Investments and GAO's Executive Guide: Leading Practices in Capital Decisionmaking; and

1.2 Apply the process to prioritize USAID's financial management system investments as part of a portfolio of planned information technology investments for USAID's Fiscal year 2002 budget submission to OMB.

Recommendation is pending final action by USAID.

Audit of USAID's Compliance with the Provisions of the Government Information Security Reform Audit Report No. A-000-01-002-P, September 25, 2001

Recommendation No. 1: We recommend that the Chief Information Officer obtain evidence that the security requirements have been applied to USAID's mission critical systems. For those systems that are operated by other agencies and organizations, the responsible Assistant Administrator, the Chief Financial Officer, the Director of Human Resources, or the Director of the Office of Procurement shall provide the Chief Information Officer evidence that proper protection exists for those systems.

Recommendation is pending final action by USAID.

Recommendation No. 2: We recommend that the Chief Information Officer provide and document that USAID employees in key security positions obtain training to allow them to conduct their security responsibilities.

Recommendation is pending final action by USAID.

Recommendation No. 3: We recommend that the Chief Information Officer conduct a study to determine the feasibility of monitoring controls, intrusion detection, and additional sensors for sensitive systems.

Recommendation is pending final action by USAID.

Recommendation No. 5: We recommend that the Chief Information Officer centralize security functions to oversee, enforce, and coordinate security and related functions.

Recommendation is pending final action by USAID.

Recommendation No. 6: We recommend that the Chief Information Officer coordinate the revision of appropriate Automated Directives System Chapters and any other supporting guidance to include and/or clarify the government information security reform-mandated requirements, especially those that pertain to incorporating security into the investment process, enterprise architecture, and contractor-provided services.

Recommendation is pending final action by USAID.

Recommendation No. 7: We recommend that the Chief Information Officer provide instructions to program managers to include security requirements in the information technology investment process and report them on the Capital Asset Plan.

Recommendation is pending final action by USAID.

Recommendation No. 8: We recommend that the Chief Information Officer finalize and approve the following four draft documents: (1) USAID Information Systems Security Program Plan; (2) USAID Risk Assessment Manual; (3) USAID Security Incident Handling Response Policy and Procedures; and (4) USAID Incident Response Capability Handbook Coordinating Draft.

Recommendation is pending final action by USAID.

Recommendation No. 9: We recommend that the Chief Information Officer document the Agency's decision on the critical infrastructure protection plan.

Recommendation is pending final action by USAID.

Recommendation No. 10: We recommend that the Chief Information Officer develop specific performance measures that include timetables and approaches to address deficiencies in its information security program.

Recommendation is pending final action by USAID.

Report on USAID'S Consolidated Financial Statements, Internal Controls And Compliance for Fiscal-Year 2001 Audit Report No. 0-000-02-006-F, February 25, 2002

Recommendation No. 2: We recommend that the USAID Office of Financial Management:

2.2 Ensure that all new grant agreements and/or amendments are submitted to its Cash Management and Payment Division within 10 business days after their execution.

Recommendation is pending final action by USAID.

Recommendation No. 4: We recommend that the USAID Office of Financial Management develop and implement a system for the immediate recognition and reporting of all accounts receivables that are due to USAID at the end of each accounting period.

Recommendation is pending final action by USAID.

Recommendation No. 7: We recommend that USAID's Chief Financial Officer, in collaboration with USAID's Chief Information Officer, revise the remediation plan to identify sufficient resources and remedies to make USAID's systems substantially compliant with the Federal Financial Management Improvement Act of 1996.

Recommendation is pending final action by USAID.

Executive Summary

A world where some live in comfort and plenty, while half of the human race lives on less than $2 a day, is neither just nor stable. Including all of the world's poor in an expanding circle of development—and opportunity—is a moral imperative and one of the top priorities of U.S. international policy.[19]

The U.S. Agency for International Development (USAID) is the principal U.S. agency providing foreign assistance to developing and transitional countries, spending less than one-half of one percent of the Federal budget to pursue the Agency's overarching development goals to encourage economic growth, enhance global health, mitigate conflict, promote democratic values, and provide humanitarian assistance. As described by Secretary of State Colin Powell: "USAID is an important part of our country's foreign policy team. Its work is at the core of our engagement with the world. ...Over the long term, our foreign assistance programs are among our most powerful national security tools."

Even before September 11, 2001, U.S. interests in the developing world had changed, becoming more pressing and significant to American economic and security interests. We have moved from an era dominated by Cold War politics and issues of containment to one where globalization and the challenges of terrorism and world economic growth increasingly occupy our agenda.

The challenges of this new era center on promoting good governance and managing conflict across the globe, as well as erasing illiteracy and stemming the spread of infectious disease. At this time in history, U.S. foreign policy interests are predicated not only on traditional security concerns but also on maintaining a liberalized international economic system and democratic capitalism as the preferred model of governance. The global focus on terrorism brings opportunities to advance the rule of law and economic prosperity and to help countries develop a stake in global integration and stability.

For the past 54 years, the United States has sought—with substantial success—to better the lives of the world's poorest citizens. Yet as globalization brings the world closer together, the problems of the developing world, from a national and economic security perspective, become more acute.

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

The Administration has given new focus and impetus to the role that foreign assistance can play in enhancing our national security and promoting a sound economic development agenda. This is reflected in the President's National Security Strategy of the United States, issued on September 17, 2002, that commits the United States to a development framework comprising the following principles:

- Encourage economic freedom, improved governance, and investment in people in developing countries
- Promote linkages between trade and development

[19] The National Security Strategy of the United States of America, Chapter VII, " Expand the Circle of Development by Opening Societies and Building the Infrastructure of Democracy," p. 21.

- Secure public health
- Protect the environment
- Emphasize education
- Promote agriculture

In FY 2002, USAID managed a budget of $7.8 billion. Of this amount, $3.3 billion was directly appropriated to the Agency (as represented in table 3.1).

Table 3.1: Appropriation Summary – USAID Managed Accounts

Budget Authority	FY 2002 Actual (millions US$)	FY 2003 Estimat e (millions US$)
Development Assistance (DA)	1,178	1,366
Child Survival and Health (CSF)	1,314	1,474
Subtotal	**2,492**	**2,840**
International Disaster Assistance	235	286
Transition Initiatives	50	55
USAID Operating Expenses (OE)*	568	689
Total USAID	**3,345**	**3,870**
Food Aid (P.L. 480, Title II)	850	1,185
Economic Support Fund	2,224	2,490
Assistance to Eastern Europe and the Baltic States	621	495
Assistance for the Independent States of the Former Soviet Union	784	755
Total	**7,824**	**8,795**

* Includes Operating Expenses, Capital Investment Fund, and Development Credit Authority Administrative Costs.

The remaining $4.5 billion was financed through Economic Support Funds (ESF), Assistance for Eastern Europe and Baltic States (AEEB), Assistance for the Independent States of the Former Soviet Union (FSA), and P.L. 480, Title II food aid resources.

The Agency Program "Pillars"

A major element of the Agency's strategy has been to reorganize development programs into four pillars. This reorientation focuses and strengthens capabilities in many program areas, as well as adding some new areas. One of these pillars, the Global Development Alliance, is our new business model and applies to all of USAID's programs. In addition, USAID programs and activities were realigned into four program pillars to utilize resources more effectively and to describe our programs more clearly. The four program pillars are:

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

The four pillars and the six management initiatives constitute the Government Performance and Results Act of 1993 (GPRA, or the Results Act) program areas for reporting purposes. The specific GPRA indicators for these program areas are provided in the expanded discussions below.

Based on the proposed FY 2002 budgetary resources appropriated to the Agency, this Annual Performance Report presents program performance along the Agency's four developmental pillars—Economic Growth, Agriculture, and Trade; Global Health; Democracy, Conflict, and Humanitarian Assistance; and the Global Development Alliance—and the corporate stewardship of USAID business systems under the Agency's Management Goal. The four USAID development pillars and the corresponding FY 2002 Agency goals on which performance is being reported in this report are presented in table 3.2:

Table 3.2: Program Pillars and Agency Goals

Agency Pillars	FY 2002 Goals and Strategic Objectives
Economic Growth, Agriculture, and Trade (EGAT)	*Broad-based economic growth and agricultural development encouraged:* ▪ Expand and strengthen critical private markets ▪ Enhance agricultural development and encourage food security ▪ Expand and make more equitable access to economic opportunity for the rural and urban poor *Basic education improved:* ▪ Quality education for underserved populations, and particularly increased for girls and women expanded *Global environment protected:* ▪ World's environment protected by emphasizing policies and practices that ensure environmentally sound and efficient energy use, sustainable urbanization, conservation of biological diversity, sustainable management of natural resources, and reducing the threat of global climate change
Global Health (GH)	*World population stabilized and human health protected:* ▪ Unintended and mistimed pregnancies reduced ▪ Infant and child health and nutrition improved and infant and child mortality reduced ▪ Deaths and adverse health outcomes to women as a result of childbirth reduced ▪ HIV transmissions and impact of HIV/AIDS pandemic in developing countries reduced ▪ The threat of infectious diseases of major public health importance reduced
Democracy, Conflict and Humanitarian Assistance (DCHA)	*Democracy and good governance strengthened:* ▪ Rule of law and respect for human rights of women, as well as men, strengthened ▪ Credible and competitive political processes encouraged ▪ Development of politically active civil society promoted ▪ More transparent and accountable government institutions encouraged ▪ Conflicts mitigated *Lives saved, suffering associated with natural or man-made disasters reduced, and conditions necessary for political and/or economic development reestablished:* ▪ Humanitarian relief provided
Global Development Alliance (GDA)	*Foster increased cooperation between USAID and traditional and new partners, and promote the sharing of resources and responsibility to achieve greater impact than any single organization could accomplish on its own*
Management (M)	*USAID's development goals achieved in the most efficient and effective manner:* ▪ Accurate program performance and financial information reflected in Agency decisions ▪ USAID staff skills, Agency goals, core values, and organizational structures better aligned to achieve results efficiently ▪ Agency goals and objectives served by well-planned and -managed acquisition and assistance ▪ Agency goals and objectives supported by better information management and technology

FY 2003 and FY 2004 Performance Indicators

The FY 2002 Performance and Accountability Report reflects the President's commitment to fund development assistance, based on measurable goals and concrete benchmarks for achieving these goals. The indicators in this Performance and Accountability Report continue to build on the changes introduced in the FY 2003 Annual Performance Plan (APP). As introduced in that document, three types of data are used to measure our accomplishments:

1. Operating unit[20] (OU) progress toward specific strategic objective (SO) targets, rather than against expectations of performance
2. Required Agencywide indicators in key sectors such as health, economic growth, agriculture, and trade
3. "Context" indicators that monitor development trends over time

Annually, an OU reports on whether its SOs exceeded, met, or failed to meet *targets*. We anticipate that about 85% of SOs will meet or exceed targets. This is a change from previous reporting practice through FY 2001. In the past, the Agency has asked missions to report on whether programs have met, exceeded, or failed to meet *expectations*. The data for FY 2000 in the performance tables report "expectations," rather than "targets," and are therefore not strictly comparable with data for FY 2001 and subsequent years. In addition, because the new "Meeting Targets" is an *auditable* result, some missions this year had not completed data quality assessments at the time of submission of their annual reports. As a result, this year only, there will be a higher number of Not Available reports than was true in the past. In addition, for FY 2001 only, Not Assessed and Not Required are combined into a single number that is reported as being Not Available.

Of the 62 strategic objectives that were listed as Not Assessed, 47 did not require a self-assessment (they either were less than one year old or were in support of other strategic objectives that were assessed), leaving only 15 programs out of 444 Agencywide that truly did not assess their achievements. For FY 2002, operating units and missions will be required to assess their progress, using high-quality data, and will distinguish between Not Assessed and Not Required.

Under each goal are Agency objectives that reflect the degree to which USAID operating units have met or not met their programmatic strategic objectives. USAID has established the following FY 2002 targets for its operating units:

- At least 85% of the strategic objectives in the sector area have met or exceeded their targets for the year, with no more than 10% failing to meet targets, and no more than 5% not available.

We note that strategic objective targets are what the mission feels is achievable in the given setting with the available resources. Thus, for example, we have "successful" programs in Zimbabwe and Belarus, because they reached their very limited goals even though these countries would not be considered "successes" in almost any other sense.

In those sectors where it is feasible, notably Economic Growth and Global Health, the Agency has selected specific indicators on which OUs are required to report, which are then "rolled up" to provide indicators for Agency accomplishments.

To help understand the overall context in which the Agency is working, "context indicators" are presented in some development sectors to illustrate overall trends. In the democracy sector, for example, the context indicator would be the Freedom House Index score for a given country, as described in the discussion of democracy and governance programming. USAID typically does not control sufficient resources to directly affect context indicators, but is one of many stakeholders that influence outcomes. Because of this lack of direct attribution, the Agency does not set targets for context indicators.

One of the most significant reporting changes is that USAID will only aggregate context and performance data to the Agency level on countries where USAID works and that have programs that total $1 million or more in FY 2000[21]. Countries that graduated from USAID assistance during the 1990s are added to this list, notably

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

[21] Most recent year for which obligations by program area are available.

eight countries in Eastern Europe[22]. While we are no longer providing substantial assistance to these countries, the benefits of past work continue to accrue and are captured in the performance or context indicator tables. Lists of countries used to calculate each indicator are in the technical annex.

The overhaul of USAID's business systems and processes is key to improving the Agency's performance. We have initiated a transformation plan that will result in a comprehensive human capital planning process, organizational realignments to simplify and integrate programs and functions, modernization of our business systems, and integration of budget and performance.

Limiting reporting in this way captures between 75% and 90% of program funding and ensures that the Agency reporting focuses on results in countries where significant resources exist. All programs, regardless of size, are required to report on whether they achieved their targets.

These tables are supplemented by examples of how USAID works and what results are achieved in the form of short stories from the many countries where we work. While sometimes dismissed as "anecdotal" reporting, these give the true flavor of how the Agency reaches its overall accomplishments and are far more meaningful than vast numbers aggregated into a table that covers the entire world. Combining data with examples of strategic objectives that met, or did not meet, targets is a more effective way to communicate than focusing entirely on data.

Reporting on Failure to Meet Targets

All operating units are required to report whether their programs exceeded, met, or failed to meet their targets. Targets are set during the planning or early implementation process in a document called the Performance Monitoring Plan. Missions and other OUs are regularly audited to determine whether they have developed and are using these plans. All OUs that report failure to meet targets are required to report why they failed and what they will do to address the issue. If the Agency as a whole fails to meet targets set in this document, this failure will be addressed in a similar way. The Policy and Program Coordination Bureau has responsibility for ensuring that balanced reports are prepared, and this is reviewed by the Office of the Inspector General.

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

Management Reforms

The overhaul of USAID's business systems and processes is key to improving the Agency's performance. We have initiated a transformation plan that will result in a comprehensive human capital planning process, organizational realignments to simplify and integrate programs and functions, modernization of our business systems, and integration of budget and performance. The Agency has established a Business Transformation Executive Committee (BTEC) to oversee management improvement initiatives and investments. A program management office is being created to establish standard project management practices, processes, and tools.

Organization of the Program Performance Section

The Program Performance Report contains four parts that describe the Agency's program pillars' performance and a fifth part describing its management achievements in terms of the President's Management Agenda. The program pillar chapters begin with

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

a brief overview of the development goal, how this goal benefits the American public, and a descriptive narrative of what USAID is doing in each development sector.

If relevant, context indicators are presented to provide a perspective on recent trends. Pillar goals are identified with corresponding performance objectives supported by descriptions of operating unit performance in meeting strategic objective targets. Finally, illustrative examples of strategic objectives meeting targets are presented, as well as brief examples of strategic objectives not meeting targets. (The complete listing and description of strategic objectives that did "not meet" targets is accessible at www.USAID.gov/pubs/par02/).

ECONOMIC GROWTH, AGRICULTURE, AND TRADE (EGAT) PILLAR

Overview

The Economic Growth, Agriculture, and Trade (EGAT) pillar has three overall goals:

1. To encourage economic growth through improved business climates, strengthened markets, agricultural development, and microenterprise support
2. To encourage economic growth by building human capacity through education—especially basic education—and training
3. To protect the global environment through improved management of natural resources, increased energy efficiency, conservation of biological diversity, sustainable urbanization, and measures to reduce the threat of global climate change

The most effective way to bring disadvantaged and marginalized groups into the mainstream of an economy remains broad-based economic growth. A sound and stable policy environment that promotes opportunity for all members of society is key to encouraging such growth and reducing poverty. USAID therefore supports policy reform activities in five functional areas: (1) economic policy; (2) privatization; (3) general business, trade, and investment; (4) legal and institutional reform; and (5) the financial sector.

The most effective way to bring disadvantaged and marginalized groups into the mainstream of an economy remains broad-based economic growth. A sound and stable policy environment that promotes opportunity for all members of society is key to encouraging such growth and reducing poverty.

Benefits to the American Public

As the economies of transitional and developing nations become more open, transparent, and market-oriented, Americans also benefit. In fact, countries that have graduated from USAID assistance import more American manufactured goods and services than developed nations do. Just as important, improvements in economic growth, agriculture, and trade increase economic opportunity for citizens of partner countries and enable a more equitable distribution of the benefits of a free and democratic society. These countries are therefore more likely to be politically stable trade and investment partners of the United States.

Context Indicator for Economic Growth

USAID uses a context indicator to measure per capita economic growth rates in USAID-assisted countries. The indicator is for economic growth in target countries to exceed population growth by at least one percent. The number of countries meeting the target has increased from 24 in the early 1990s to 40 by the end of the decade. During the same period, the number of countries with slow or negative growth has fallen from 40 to 24 (as is shown in the following table). This shows that countries with substantial USAID economic growth programs have made significant progress in increasing per capita gross domestic product over the past 10 years. It should be noted, however, that broader national and international trends have also played a major role in these improved economic figures.

EGAT Goal 1: Broad-Based Economic Growth and Agricultural Development

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

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

EGAT Objective 1: Expand and strengthen critical private markets

Robust private markets spur economic activity and free enterprise, but these markets can flourish only in a strong policy environment and with strong institutions. Policies and institutions that support private markets also encourage trade, investment, and other private-sector activity. The degree to which a country's policies allow private markets to thrive is vital to creating long-term economic growth and development.

In FY 2002, USAID programs at the central and local government levels helped improve business climates and expand trade and investment. Major areas of program concentration included private enterprise development, fiscal reform, strengthening financial markets, and trade and investment. Key approaches included:

- Privatizing state-owned enterprises
- Providing technical assistance and training in current business practices and accounting methods for business people and academics
- Providing policy analysis and policy reform studies in free trade, economic forecasting, business regulation, banking, and taxes
- Providing entrepreneurs with access to credit
- Modernizing labor markets and creating jobs

The degree to which a country's policies allow private markets to thrive is vital to creating long-term economic growth and development.

Table 3.3: Context Indicator: Average Annual Gross Domestic Product Growth Rate per Capita[23]

Number of Countries Reporting (58)					
Category	**1985–1989**	**1988 –1992**	**1991–1995**	**1994 –1998**	**1997–2000**
5% or more	1	1	5	11	8
1%–5%	20	14	19	31	32
0%–1%	7	5	9	9	9
Negative	15	38	31	13	15
Data not available	21	6	1	0	0

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

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

Context Indicator for Growth of Private Markets

Economic freedom scores such as those produced annually by the Heritage Foundation provide a good indicator of a country's overall business climate. Table 3.4 documents a downward shift in economic repression, indicating that "repressed" countries went from 10 in 1998 to 4 in 2002, while "free" and "mostly free" countries increased from 12 in 1998 to 15 in 2002. Much of this progress occurred in the eight Eastern European countries that have graduated from USAID assistance. While USAID can claim little direct credit for progress these countries made in FY 2002, it is clear that countries where USAID is active tend to have a more transparent and open business climate.

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

Table 3.4
Context Indicator: Index of Economic Freedom Scores[24]

Number of Countries (Total number of reporting countries = 48)			
Category	**1998**	**2001**	**2002**
Repressed (score 4.0–5.0)	10	5	4
Mostly Unfree (score 3.0–3.95)	24	26	29
Mostly Free (score 2.0–2.95)	12	15	14
Free (score 1.0–1.95)b	0	0	1
Data Not Available	2	2	0

Source: Heritage Foundation, *Index of Economic Freedom*.
Data Quality: See annex.

Strategic Objective Performance

The Agency's indicator for assessing the performance of EGAT Objective 1 is that at least 85% of operating units with private-sector growth-related strategic objectives must meet or exceed their planned targets for the year, with no more than 10% of operating units failing to meet targets and no more than 5% not available. As the table below shows, the Agency reached 73% of its planned targets for FY 2001.

Table 3.5
Performance Indicator: Percentage of Strategic Objectives Meeting Targets

Category	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
Exceeded	19%	10%	10%	85%	85%
Met	64%	70%	63%		
Not Met	17%	13%	11%	10%	10%
Not Available	1%	6%	16%	5%	5%
Number of SOs Reported	67	67	62		

Source: USAID missions, *Annual Reports*.
Data Quality: Missions are relied on to produce accurate reports, which are reviewed in Washington.

The Expansion and Strengthening of Critical Private Markets

Strategic objectives that met targets

Critical, private markets expanded and strengthened in Jordan

For this SO the most significant achievement in 2001 was the successful negotiation of the U.S.-Jordan Free Trade Agreement that will form the basis for an expanding economic partnership that benefits both countries. Other key results included:

- Almost 18,000 active borrowers participated in the microenterprise credit program, exceeding the target by 20%. In cooperation with Citibank, the mission also created a "Microfinance Funding Facility," an example of a successful development alliance with the private sector.
- USAID participation was critical in the creation of the Aqaba Special Economic Zone, which has attracted more than $630 million in registered investments (versus a target of $100 million).
- USAID assistance to the Jordan Investment Board helped generate $1.25 billion in domestic and foreign investment (vs. a target of $1.5 billion) and privatized state-owned assets totaled $936 million (vs. a target of $900 million).

Critical, private markets expanded and strengthened in Kyrgyzstan

Developing the environment for small and medium enterprises (SMEs) is a cornerstone of USAID's assistance strategy for Kyrgyzstan. USAID provides entrepreneurs with technical assistance, provides university faculty and students with educational materials, promotes accounting reform, and works with the Government of

[24] Data reflect only countries with significant USAID economic policy reform programs or that have graduated from USAID assistance during the 1990s. Reliable data were not collected for all countries prior to 1998.

Kyrgyzstan to streamline business regulatory practices through economic and judicial reforms.

USAID also designed a certification process for bank supervisors, supported the establishment of a national professional accounting association, and helped consolidate and facilitate the adoption of flat fees for business licenses. As a result of these and other interventions, USAID/Kyrgyzstan's chief indicator, a Business Environment Index that measures diverse aspects of the SME environment, surpassed its target.

The modernization of agriculture and food systems is an essential precondition for sustained economic growth. The shift from subsistence agriculture to producing food for consumers contributes to a more prosperous rural environment and generates additional opportunities for employment and economic progress throughout the economy.

Critical, private markets expanded and strengthened in South Africa

USAID's efforts to link historically disadvantaged small and medium businesses with new markets has resulted in increased business transactions, attracted new capital and credit, and created permanent jobs. Some activities are generating $30 to $50 for each USAID dollar invested—and these are first round effects only. In the two years since USAID revised this strategy, historically disadvantaged firms have arranged over $237 million dollars in business with larger firms, exceeding the program's five-year target of $200 million. Approximately $180 million of this occurred in 2001, including $69 million in sales contracts, $61 million in equity investments, and $49 million in joint ventures. Some $42 million, or 23% of these transactions involved women entrepreneurs and women-owned businesses. The success of this program is also leveraging additional resources as other donors and the Government of South Africa embrace USAID's approach.

Strategic objectives that did not meet targets

Program in Tajikistan

USAID's program in Tajikistan to encourage small and medium enterprises was ineffective because of security restrictions on travel and political and social instability in Central Asia. However, the increased U.S. military presence in Tajikistan has helped to increase stability, and USAID will be able to deliver a more comprehensive portfolio of economic reforms in 2002, including assistance to prepare Tajikistan for eventual World Trade Organization membership.

EGAT Objective 2: Enhance agricultural development and encourage food security

The majority of people in the poorest countries derive their livelihoods from agriculture. Consequently, the modernization of agriculture and food systems is an essential precondition for sustained economic growth. The shift from subsistence agriculture to producing food for consumers contributes to a more prosperous rural environment and generates additional opportunities for employment and economic progress throughout the economy.

The P.L. 480 Title II development (nonemergency) program makes important contributions to EGAT Objective 2 by broadening the Agency's direct coverage to include poorer, more remote populations. In FY 2001, approximately $186 million in Title II development resources was used to support agriculture and natural resource management activities. Title II-funded community-level programs worked with small farmers and their families, providing technical assistance and training to promote sustainable farming practices, more productive and diversified farming systems, and improved postharvest management and marketing.

USAID agricultural programs promoted increased production and diversification of agricultural goods for both local consumption and export. The Agency also encouraged policy reform to provide incentives for farmers and agricultural entrepreneurs; promoted research for, and adoption of, improved agricultural practices and technologies; and supported programs to increase producers' access to markets and market information. Typical approaches to improve agricultural production and enhance food security included:

- Training and technical assistance (including extension services)
- Access to credit programs
- Farm-to-market linkages (including road rehabilitation and market education)
- Agricultural policy reform (food security, land privatization)

Table 3.6

Context Indicator: Trends in Net per Capita Agricultural Production[25]

Category	1986 – 1990	1989 – 1993	1992 – 1996	1995 – 1999
5% or more	3	2	7	3
1%–4.9%	5	6	9	16
0%–0.99%	6	4	6	7
Negative	14	24	16	13
Data not available	11	3	1	0

Source: World Bank, *World Development Indicators*. Average annual rates for agriculture and population growth are calculated using the geometric mean, based on end points, and are four-year rolling averages. 1995–1999 are the most recent figures available.

Data Quality: See annex.

- Improving agricultural practices (introducing improved crop varieties, irrigation, and on-farm water management)

In Colombia, USAID is also involved in the destruction of illegal coca crops and the introduction of commercially viable replacement crops.

Context Indicator for Agriculture

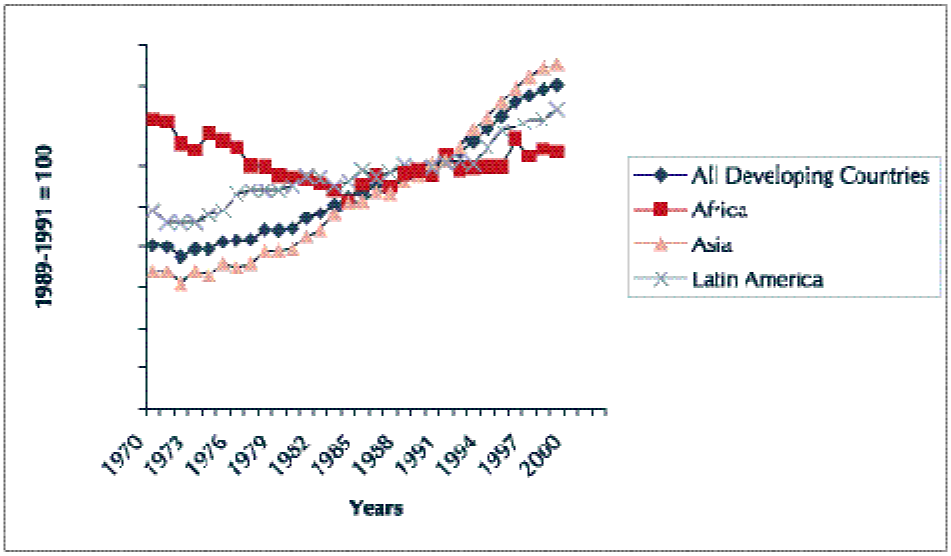
While USAID missions and other operating units track indicators based on their specific agriculture programs, the Agency tracks trends in net per capita agricultural production. This context indicator shows whether gains in agricultural production are keeping up with the rate of population growth. It is important to track both food availability per person and the development of excess production to increase savings and investment.

Through most of the 1990s, USAID was not very active in the agriculture sector. The fact that one-third of the countries where we are currently working have negative per capita agricultural production growth rates has led USAID to renew its focus on this important sector. Despite overall reduced programming in agriculture, many countries, particularly in Eastern Europe, increased their agricultural performance with USAID assistance. During 1989–1993, 24 countries experienced negative growth, a number cut nearly in half by 1995–1999, as shown in table 3.6.

Table 3.7 shows the relative changes in per capita food production over the past 32 years. It clearly shows that there has been a steady increase in agricultural output, both in Latin America and Asia. African output has decreased to well below the index average of 1970. USAID has been involved in agricultural programs in all three regions during this time period; therefore, these trends indicate progress for national governments, donors, and USAID. It also portends important challenges for the future, particularly in Africa, whose food production is only barely keeping up population growth.

[25] Table reflects only countries with significant USAID agricultural programs.

Table 3.7: Per Capita Net Food Production Index



Source: Food and Agriculture Organization of the United Nations: FAOSTAT - statistical database. This is a food production index, where the mean of the years 1989-1991 is established as a base of 100 and all years are judged in relation to that mean.

Strategic Objective Performance

USAID has a general target for increasing agricultural production and improving food security, which is that at least 85% of strategic objectives in this area will meet or exceed their targets for the year, with no more than 10% failing to meet targets, and no more than 5% not available.

As noted in table 3.8, the overall percentage of USAID programs involved in agriculture objectives meeting their targets decreased from 83% in FY 2000 to 64% in FY 2001, and the number of strategic objectives not meeting targets grew from none to 30%. Much of this change is due to stricter performance reporting requirements established in 2001. USAID/W is working with operating units to improve performance management. The 33 strategic objectives with a primary focus on agriculture were carried out in 31 countries. Of these 33 strategic objectives, 64% met or exceeded their objectives in FY 2001.

Agricultural Development and Encouraging Food Security

Strategic objectives that met targets

Improving agricultural production in Uganda

Since 1997, USAID has made a direct impact on the economic well-being of more than 3 million rural Ugandans through its activities to improve agricultural production, expand access to credit, and advocate policy reform. In fact, each $1 of USAID investment in agricultural development in Uganda has leveraged more than $17 in gross benefits. The development and diversification of new high-value agricultural exports (cut flowers, fresh fruits and vegetables, vanilla, and cocoa) generated $30 million in export earnings in 2001 and led to the creation of 23,000 jobs. USAID's assistance in accessing export credit helped Uganda export more than $4 million worth of maize to Zambia. USAID also provided training and technical assistance to more than 60 microfinance institutions, serving about 350,000 mostly female micro- and small-scale entrepreneurs. Beneficiaries of USAID-supported microfinance programs are better able to invest in the education of their children and the productivity of their farms than nonparticipants are.

Hurricane Mitch recovery in Guatemala

Hurricane Mitch devastated much of Guatemala's agricultural land. In 2001, USAID's Mitch Disaster Recovery helped 22,327 small farmers recover lost agricultural production capacity

Table 3.8
Performance Indicator: Percentage of Strategic Objectives Meeting Targets

Category	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
Exceeded	38%	20%	9%	75%	85%
Met	54%	63%	55%		
Not Met	5%	5%	30%	20%	10%
Not Available	3%	12%	6%	5%	5%
Number of SOs Reported	30	30	33		

Source: USAID missions, *Annual Reports*.

Data Quality: Missions are relied on to produce accurate reports, which are reviewed in Washington.

and make production more sustainable and resistant to future climatic events. Under the supervision of the U.S. Army Corps of Engineers (USACE) and the Ministry of Agriculture, eight USACE project designs were completed that benefited 21,050 hectares. Construction activities included river channel modification, rebuilding of flood protection infrastructure, rehabilitation of small irrigation systems, repairs to bridges, and rehabilitation of farm-to-market roads. USAID also helped rehabilitate 230 kilometers of roads and bridges in Alta Verapaz and Ixcán. Microenterprise credits totaling $1.5 million benefited 3,200 families (16,000 beneficiaries). In the Polochic watershed, USAID helped 5,680 families plant more than 1.2 million trees (coffee, avocado, macadamia, allspice) on a total of 1,092 hectares; and 77,198 shade trees (ingas and red cedars) benefiting 4,130 families on a total of 277 hectares.

P.L. 480 Strengthened government safety net programs in Peru

PRISMA is a Peruvian NGO that has played a major role in the fight against food insecurity over the past 15 years. PRISMA developed an information system that farmers can access via Internet kiosks for market pricing, packaging, and buyer information. In FY 2001, PRISMA assisted 793 farmer organizations, facilitating market participation by approximately 13,722 food-insecure farmers. The influence of the program in improving incomes has been substantial: productivity gains and price increases have averaged about 30% in the past year (ranging between 10% and 100%, depending upon product and region).

Strategic objectives that did not meet targets

Illegal crops in Columbia

In Colombia, USAID's program to eliminate illegal crops and promote alternative development strategies missed targets for crop eradication because of security issues and deficient institutional capacity of key Government of Colombia entities. Current estimates indicate that approximately 160,000 hectares of coca cultivation fed the production and export of cocaine, while 6,200 hectares of opium poppy sustained heroin exports, primarily to the U.S. eastern seaboard. The Government of Colombia (GOC) attacks this illegal industry by fumigating illicit crops, intercepting drug shipments and precursor chemicals, and providing alternative income opportunities for farmers who cultivate drug crops. Although the Alternative Development Program experienced some difficulty in meeting all of its targets, the mission has addressed these constraints through its revised strategic plan. The primary challenge in the coming years will be to continue to implement programs in what may continue to be a highly unfavorable and often unpredictable security environment. GOC institutional weaknesses are expected to continue to hamper implementation.

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

EGAT Objective 3: Expand and make more equitable access to economic

opportunity for the rural and urban poor

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

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

USAID has three major approaches to improving rural incomes and economic opportunity:

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

In addition, USAID funds programs to support job creation and training, increase access to credit, and improve business education. The Agency also promotes social "safety net" restructuring, bank and financial market reform, and improvements to physical infrastructure in rural areas.

Table 3.9: Annual Microenterprise Results

Calendar Year	1997	1998	1999	2000	2001
Microenterprise funding (millions US$)	158.1	136.2	153.5	164.4	153.6
Active number of loans (000)	1,447	3,559	2,020	2,164	3,400
Percentage of loans made to women	67%	84%	69%	70%	71%
Repayment rate (%)	94.8	95.3	95.2	93.7	93.3

Source: Annual Microenterprise Results Report.

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

Performance Indicators: Microfinance

In FY 2001, USAID contributed $153.6 million to microenterprise development, a slight drop from FY 2000 (see table 3.9). This was accompanied by a substantial increase in the number of active loans, from 2.2 million to 3.4 million, suggesting a decrease in the average loan amount. There was no change in the number of loans made to women or the repayment rate, which was extraordinarily high at 93.3%.

As table 3.9 indicates, there has been a significant rise in the number of loans and clients in the past year. Since 2000, there has been a 57% growth in the number of clients served through USAID-assisted programs. For those institutions reporting in both 2000 and 2001, there was an annual growth rate of 45% (700,000 more clients for 163 institutions). In other words, the number of participating institutions has stayed more or less the same, but they are serving more clients. In Africa and the Near East, in particular, institutions reported considerable growth in the number of clients reached.

The following table shows that 81% of USAID strategic objectives in this area met their targets for the year, reflecting no change from FY 2000. There were 11 more microenterprise strategic objectives in 2001 than in 2000, but there was no change in the percentage of USAID strategic objectives that met or exceeded their targets (81%). Two programs, or 5%, did not meet targets in 2001.

Table 3.10
Performance Indicator: Percentage of Strategic Objectives Meeting Targets

Category	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
Exceeded	18%	12%	22%	85%	85%
Met	72%	69%	59%		
Not Met	3%	2%	5%	10%	10%
Not Available	1%	3%	14%	5%	5%
Number of SOs Reported	26	26	37		

Source: USAID missions, *Annual Reports*.
Data Quality: Missions are relied on to produce accurate reports, which are reviewed in Washington.

Increasing Economic Opportunity for the Rural and Urban Poor

Strategic objectives that met targets

An improved environment for small and medium enterprises in Kazakhstan

Results in USAID's program to develop Kazakhstan's financial markets exceeded expectations. The corporate bond market grew by $260 million (a 200% increase), topping $392 million in issues and providing an additional source of capital for SME growth and expansion.

USAID assistance helped increase home mortgage loans from a total value of US$1 million to US$10 million in just one year, allowing more than 1,500 families to purchase their own homes. USAID also helped Kazakhstan become the first country in the former Soviet Union to issue a mortgage-backed bond, which included a guarantee, and the first to create a national mortgage company.

Kazakhstan's private pension system increased by more than 56%, surpassing $1.1 billion. Other successes include the passage of a consolidated banking supervision law, the enactment of a new insurance law, and the consolidation of four pension regulatory bodies under the National Bank. USAID also helped local banks increase access to credit for farmers. Because of the success of USAID's Financial Protection Initiative, USAID plans to shift from pension and insurance regulation to the introduction of a credit rating agency and a credit bureau.

Increased women's empowerment in Nepal

The Women's Empowerment Program (WEP) combines economic growth and business development with interventions offering basic literacy and knowledge of legal rights and responsibilities and advocacy techniques. Some 122,000 women passed a literacy test and became active savers in 2001, and more than 140,000 collective actions for social change (on issues such as violence against women and trafficking in women and children) took place, far exceeding targets. In addition, 27,786 women increased their knowledge of their basic rights, and 4,826 initiated or expanded their microenterprises. As part of the program's exit strategy, different types of linkage programs between the WEP women and various line agencies, elected officials, and other concerned authorities were initiated, successfully introducing women and their advocacy and economic initiatives to a range of stakeholders.

Strategic objectives that did not meet targets

Investment promotion in Morocco and rural enterprise in Eritrea

In Morocco, an investment promotion program did not meet a target to perform a review of commercial laws and regulations, primarily because of the reluctance of the Ministry of Justice to undertake a comprehensive review of commercial laws and regulations, as had been agreed at the inception of the program. As a partial compromise solution, USAID recently agreed to reallocate some funds to commercial court strengthening in Marrakech. In Eritrea, a program to revitalize rural economies did not perform to expectations because of critical staff shortages and unanticipated delays in military demobilization, slowing a national economic recovery on which a fuller response of the rural enterprise program depends. Problems with the original program implementation plan have been identified and corrected, and new staff is being recruited.

EGAT Goal 2: Improve Basic Education

EGAT Objective 4.0: Quality education for underserved populations expanded, particularly for girls and women

The increased human capacity gained through education is essential for sustained social and economic progress. USAID's basic education goal is supported by two objectives: (1) access to quality basic education for underserved populations expanded, especially for girls and women and (2) the contribution of institutions of higher education to sustainable development increased. USAID also supports programs in workforce development and training.

Basic education—which provides literacy and numeracy, along with problem solving and other core skills—is especially critical to development. Investments in expanded and improved basic education have been linked to faster and more equitable economic growth, progress in reducing poverty, lower birth rates, and stronger support for democracy and civil liberties. In addition, expanded and improved basic education of girls and women contributes to enhanced family health, lower fertility, and the enhanced status of women. Research demonstrates that where primary school completion rates are low, investments to broaden access and improve educational quality at the primary level yield especially high returns.

Basic education—which provides literacy and numeracy, along with problem solving and other core skills—is especially critical to development.

EGAT Objective 4.1: Expand access to quality basic education for underserved populations, especially girls and women

USAID's basic education programs assist and encourage countries to improve their educational systems, policies, and institutions; adopt better educational practices in the classroom; and give families and communities a stronger role in educational decisionmaking. In the many developing countries where girls face barriers to education, we devote special efforts to reducing these barriers, thereby promoting educational—and future vocational—opportunities for girls. Basic education activities serve to improve (1) preprimary, primary, and secondary education systems, as well as comprehensive school-based and out-of-school programs; (2) adult literacy programs; and (3) teacher training at any of these levels. These efforts have helped USAID become a technical leader and innovator in basic education.

The Agency also supports three U.S. Presidential Initiatives:

1. In South and Southeast Asia, especially in Afghanistan and Pakistan, there will be increased funding for basic education programs to improve education access, quality, efficiency, relevancy, and equity.

2. In sub-Saharan Africa, the program will support improved teacher training, scholarships for girls, enhanced community participation in the education process, development of educational materials, and more effective application of information technology.

3. In Latin America and the Caribbean, we are supporting the development of three Centers of Excellence for teacher training to serve Central America, the Caribbean, and the Andean regions, especially through the use of distance education.

The target for tracking expanded access to quality basic education is that at least 85% of strategic objectives in this area will meet or exceed their targets for the year, with no more than 10% failing to meet targets, and no more than 5% not available.

As shown in table 3.11, during 2001, there were 43 separate education objectives. Of these, 12% exceeded expectations, 65% met expectations, and 5% failed to meet expectations. An additional 18% were not available. Much of this change is due to stricter performance reporting requirements established in 2001. USAID/W is working with operating units to improve performance management.

Table 3.12 identifies the total number of primary school children who were affected by USAID programs. Nearly 12 million children were enrolled in USAID-funded basic education institutions in FY 2001. These enrollment figures vary by region, with African children receiving the bulk of the educational resources (90%) available from the regional bureaus. For example, USAID efforts in Ethiopia were aimed at helping girls stay in and succeed at school. This raised participation of girls in the two USAID focus regions to 73.9% and 48.1% in the 2000–2001 school year, up from 38% and 17% respectively from the baseline 1994–1995 school year. These levels exceed the national average (47%).

Likewise in Guinea, the primary school

Table 3.11
Performance Indicator: Percentage of Strategic Objectives Meeting Targets

Category	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
Exceeded	22%	30%	12%	85%	90%
Met	66%	64%	65%		
Not Met	3%	3%	5%	10%	10%
Not Available	9%	3%	18%	5%	0%
Number of SOs Reported	33	33	43		

Source: USAID missions, *Annual Reports*.
Data Quality: Missions are relied on to produce accurate reports, which are reviewed in Washington.

gross enrollment rate (GER) reached 61.0%—up from 31.9% in 1991—while girls' GER grew from 19.7% to 50.0% during the same period. In FY 2001 alone, the GER indicator increased by 4.3 percentage points, with a 5.7% increase for girls. Similar on-target results were reported for Zambia, where the number of children enrolled in USAID-supported basic education institutions dramatically increased from 12,565 pupils in 63 basic education sites in 2000 to 37,140 pupils enrolled in 256 basic education sites in 2001.

In addition, USAID/Washington provided $87.5 million in basic education support to 18 countries (10 in Africa and 8 in Latin America and the Caribbean), with a total of 63.2 million primary school-age children. This number does not include USAID support to countries in Asia and the Near East, such as India and Pakistan, which also have a large number of children enrolled in primary school.

Expanding Access to Quality Education

Strategic objectives that met targets

Basic education program in Nicaragua

The objective of USAID/Nicaragua's basic education program is to improve the access of Nicaraguan children, especially rural and bilingual children, to quality primary education through a network of 170 model schools around the country. Activities support increased teacher effectiveness and student-centered materials to promote active learning, increased community participation in schools, and strengthened Ministry support of decentralized primary education.

Table 3.12: Children Enrolled in Primary Schools

	2001			2002 Target		
Bureau/Region	**Male**	**Female**	**Total**	**Male**	**Female**	**Total**
Africa 12 countries	6,214	5,215	11,429	5,516	4,808	10,324
Asia and Near East 3 countries	7	26	33	8	36	44
Latin America and Caribbean 7 countries	442	419	862	452	428	880
Grand Total 22 Countries	6,663	5,660	12,323	5,976	5,272	11,248

The results of the program exceeded planned targets for all school categories, as measured by an active student participation index. Progress was demonstrated in the Atlantic Coast bilingual schools, with a resulting index of 47% versus a 25% target. The percentage of students reaching 5th grade in five years without repeating a grade nationally in 2000 was 38.5% (2001 data are not yet available). In comparison, the percentage reaching 5th grade for all model schools was 52.2%. In Pacific Coast model schools, with a longer history of USAID support, the percentage was 61.8%.

Transparency in school budgets in Uganda

USAID's policy dialogue agenda has been a major factor in the Government of Uganda's (GoU's) reform processes, leveraging increased budget support to the education sector and significant improvements to teacher salaries and conditions of employment. The recurrent budget allocation to the education sector has risen from 19% in 1995 to 31% in 2001. Through USAID policy dialogue, every school is now required to publicly display budgets specifying their GoU allocations. More than 90% of schools comply, fostering greater transparency and accountability of public expenditures in primary education and increasing parental involvement in their children's schools. As a result of USAID's leadership in primary education reform, 13 donors have now formed a consortium that works collaboratively with the GoU to advance a common education policy agenda, and more than $400 million has been leveraged to support the education sector.

Strategic objectives that did not meet targets

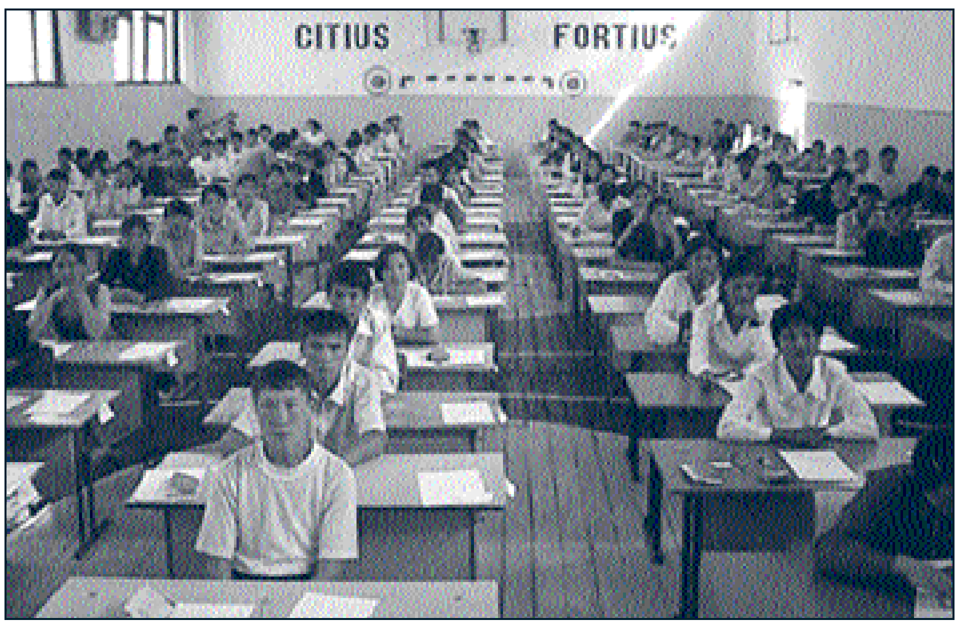
Increase access to quality education and training in South Africa

Though student assessment scores increased in six of seven learning areas assessed, results in the four poorest provinces fell short of a targeted 2% increase over the baseline. Following the publication of the test results, USAID officials, contractors, and key personnel from provincial and national departments of education met to analyze the results, identify impediments to progress, and formulate solutions to remedy the problems. These stakeholders concluded that too many interventions might have been introduced during the past year, while not enough attention was given to developing stronger support structures. An upcoming evaluation will recommend an optimal package of activities to improve student performance. In 2002, the program will conduct more frequent classroom monitoring and intensify its focus on numeracy and literacy.

EGAT Objective 4.2: Increase the contribution of institutions of higher education to sustainable development

Higher education programs support economic growth by helping countries produce a trained workforce and increase institutional capacity. The programs develop skills needed for leadership positions in fields such as education, business, governance, management, administration, and science and technology research that contribute to a country's sustainable development. Higher education activities facilitate and support institutional partnerships that can transcend the length of finite projects, thereby leveraging USAID's limited resources. The program has established 120 partnerships in 53 countries, involving more than 130 U.S. community colleges and universities and 120 developing country institutions. In addition, 7 higher education networks have been established, involving 25 developing world institutions and 60 U.S. institutions in 15 countries.

One successful higher education partnership is that between Virginia Tech; the Malawi Institute of Education; and the Domasi College of Education, Malawi. The partnership changed the culture and professional development of teachers in three regions in Malawi and promoted the teaching profession. The partnership also created a new bachelor of science (B.S.) degree in education at Domasi College and established an Internet connectivity hub to share a problem-solving model based on classroom-action research. Higher education partnerships such as these are working to build a cadre of professional leaders to further the development of host countries worldwide.



Workforce development in Egypt and South Africa

For a nation to compete successfully in the global marketplace, potential employees' skills must match employers' needs. Workforce development activities in Egypt have engaged the private sector through school-to-business internship programs. As a result, curricula and training programs are aligned more closely to skill development needed in the workplace, and employers are finding appropriately skilled workers. In South Africa, education systems have been developed around clusters of businesses that work together to identify the skill gaps in their employees and then provide instruction and certification to close those gaps.

Global Training

Globally, more than 190,000 people participated in USAID training programs in FY 2001. The results of training programs are broad and impact multiple developmental needs and Agency sectors. For example, after a group of faculty from the law department at the University of Tirana, Albania, were trained in the Czech Republic, one was named head of the Department of Criminal Law, two have written textbooks, and others have supported a legal aid clinic in the law faculty. In Benin, a master's degree graduate founded a grassroots organization that has promoted agricultural cooperatives to encourage female economic associations; in Senegal, an M.B.A. alumnus served as economic adviser to the former President of Senegal; in Cameroon, a Ph.D. graduate in pharmacy is working on production by tissue culture of a chemical that blocks reproduction of the AIDS virus; in Uganda, a Ph.D. graduate with an interest in human rights and multiparty democracy headed the Division of Conflict Management within the Organization of African Unity.

Environmental problems increasingly threaten the economic and political interests of the United States and the world at large. Environmental degradation endangers human health, undermines long-term economic growth, and threatens ecological systems essential to sustainable development.

Strategic objectives that did not met targets

Mali community school program

Under the education program in Mali, community school programs fell short of targets. In 2001, the gross enrollment rate for community schools in this land-locked West African country was below the national averages, and the access rate appears to be declining, with girls' access and enrollment lower than that of public schools. USAID plans to commission an independent evaluation of USAID-sponsored community schools in 2003 to determine the reasons for overall declining enrollment and poorer participation of girls. Based on the study's findings, USAID will work for changes with its partners to improve quality.

EGAT Goal 3: Protecting the Global Environment

Environmental problems increasingly threaten the economic and political interests of the United States and the world at large. Environmental degradation endangers human health, undermines long-term economic growth, and threatens ecological systems essential to sustainable development.

USAID programs promote economic growth, global health, technology transfer, and conflict prevention. They also help countries manage economic activities so that the natural environment will continue to support the goods and services necessary for development and growth.

To achieve these objectives, USAID is implementing a variety of approaches across all regional areas. Primary approaches include:

- Sustainable water management through policy and legal reforms, strengthened water-sector institutions, increased access to clean water, and increased water use efficiency
- Improved natural resource and watershed management through community resource planning and management, community awareness training programs, and increased sustainable production and management of the natural resource base
- Engaging private investors in conservation efforts; the privatization of federal, state, and municipal power utilities; and the creation of environmental regulatory agencies
- Conservation and sustainable development of forest resources, including community forest management and reforestation techniques
- Reduction of greenhouse gas emissions
- Increased areas under approved site management plans and protected area management

Strategic Objective Performance

USAID has a general target for tracking progress in the environment sector, which is that at least 85% of strategic objectives in this area will meet or exceed their targets for the year, with no more than 10% failing to meet targets, and no more than 5% not available.

The 53 strategic objectives with a primary focus on protecting the environment are carried out in 41 countries. Of these 53 strategic objectives, 87% met or exceeded their targets in FY 2001, as shown in table 3.13.

In addition to the number of programs meeting targets, USAID tracks the growing number of hectares of land under improved environmental management. Effective management occurs when habitat quality is maintained or improved and institutional ability to monitor and respond to threats is documented. The table below demonstrates the dramatic changes occurring in conservation and natural resource management around the world. USAID is focusing on the most biologically diverse and endangered parts of the world and the rapidly increasing amount of land under improved management.

Table 3.13
Performance Indicator: Percentage of Strategic Objectives Meeting Targets

Category	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003 Target
Exceeded	22%	22%	15%	85%	85%
Met	69%	67%	72%		
Not Met	5%	3%	8%	10%	10%
Not Available	4%	8%	6%	5%	5%
Number of SOs Reported	54	54	53		

Source: USAID missions, *Annual Reports*.
Data Quality: Missions are relied on to produce accurate reports, which are reviewed in Washington.

Table 3.14
Performance Indicator: Hectares under Improved Management[26]

Year	Planned	Actual
2001	54,705,000	62,540,000
2002	66,457,474	Under tablulation
2003	Under tabulation	

Sources: USAID program and operating unit-level data provided by institutional contractors; USAID, Global Center for the Environment, 2003, R4.

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

Unit of Measure: Hectares (ha).

Data Quality: Contractors and partners are now routinely using standardized methods to "score" hectares under improved management regimes, but some subjectivity is still a factor. Further refinements in scoring, more site visits by USAID staff, and more rigorous adherence to methods should further reduce variance.

Protecting the Global Environment

Strategic objectives that met targets

Reforestation projects in Russia

Reforestation efforts in selected areas now exceed the amount of timber being cut in the region, in part because of USAID's greenhouse programs, which introduced a cost-effective method to grow robust seedlings. Also, with USAID's assistance, seven mobile fire-fighting units were created and equipped to more effectively combat forest fires and protect the habitat. Last year, these fire brigades saved human lives and thousands of hectares of valuable forests.

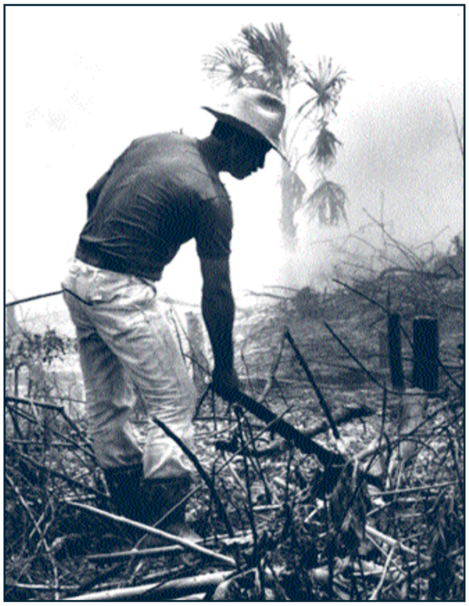
USAID's environmental management program is credited with having played a major role in attracting support for national environmental NGOs, which are among the most effective and active civil society groups in Russia. In 2001, these influential NGOs weighed in on such controversial issues as nuclear waste, environmental health, and the reorganization of the Ministry of Natural Resources.

Improved environment and natural resource management systems in the Democratic Republic of Congo, Gabon and Cameroon.

The Central Africa Regional Program for the Environment (CARPE) and its partners began a number of high-

[26] Data reflect only countries with significant USAID natural resource management programs.

profile conservation activities in the Democratic Republic of Congo, Gabon and Cameroon. These included creating new protected areas and publicizing unlawfully registered logging concessions. To reduce illegal



bushmeat hunting and wasteful logging, CARPE played a key role in initiating partnerships between private timber firms and conservations NGOs. As a result, one large Central African logging firm agreed to forego operations in a primary forest. CARPE also helped communities in Cameroon prepare detailed maps of local natural resources and negotiate access restrictions and management plans with timber companies and government officials.

Effective natural resource management in Haiti

In Haiti, forestry activities are integrated into other elements of a natural resource management strategic objective. The project exceeded its target by 20%, planting or grafting more than 600,000 trees. Over the three-year lifetime of the strategic objective, project participants have planted more than 1.4 million trees. Survival rates for out-planted forestry seedlings appear to be high, and demand from farmers continues to escalate. These plantings represent an excellent investment in stabilizing conservation structures and generating organic matter for soil fertility enhancement and, in 7–10 years, will allow a rational exploitation of wood resources.

Biodiversity conserved in selected protected areas and their buffer zones in Ecuador

Ecuador offers truly unparalleled opportunities for biodiversity conservation. With less than one-fifth of one percent of the earth's land area, Ecuador is home to 18% of the world's bird and orchid species, 10% of its amphibians, and 8% of its mammals. Located in the middle of the Tropical Andes biodiversity "hotspot," reportedly the richest and most diverse on earth, Ecuador is a top priority for global conservation.

Ecuador's high levels of poverty, powerful special interest groups, and increasing instability in the northern border region threaten this diversity. Nevertheless, USAID's biodiversity program is helping to conserve substantial areas of globally significant habitat. For example, in 2001, 1.4 million hectares (an area two-thirds larger than Yellowstone National Park) were better managed with USAID's support through regulatory reform and implementation of participatory natural resource management plans. This is helping poor rural communities to more wisely manage the natural resources they rely on for survival. Furthermore, training of community park guards, paralegals, and biologists is helping to make these efforts sustainable.

NGO capacity building has played an important role in this success: by 2001, USAID's five local implementation partners met 100% of their targets for improved administrative and financial capability and leveraged almost $7 million in non-USAID funds to support their efforts. Targets for the development of improved policies, legal frameworks, and science-based regulations were also exceeded, with several of these playing key roles in reducing the often violent conflict associated with management of the Galapagos Marine Reserve. The biologically rich reserve (the focus of USAID/Ecuador's efforts in the Galapagos) was declared a UNESCO World Heritage Site in December 2001, a landmark victory for conservation and USAID. USAID also helped lay solid foundations for development of community-based ecotourism on Isabela Island, Galapagos, in order to provide local residents with economically viable and environmentally sustainable alternatives to destructive overfishing.

Strategic objectives that did not meet targets

Environmental protection program in Mexico

USAID's program in Mexico to conserve critical ecosystems and biological resources by strengthening capacity to design and implement conservation strategies missed its targets. In FY 2001, the number of communities adopting USAID-promoted sustainable use practices dropped, primarily because USAID-supported programs are ending and are no longer providing annual data for this noncumulative indicator. Also, finance policy continues to be a major limitation to conservation in Mexico.

The largest program under the Latin America and the Caribbean's (LAC's) regional program is the Parks in Peril (PiP) program, which aims to ensure the protection of up to 37 critically threatened LAC national parks and reserves of global significance. This program is a partnership among USAID, the Nature Conservancy, local nongovernmental organizations, and local government agencies. Overall, this strategic objective did not meet planned targets during the past year because of slow start-ups at some sites and changes in some PiP implementing partners. USAID has subsequently rectified these performance issues and this key regional program is now on track and meeting targets.

GLOBAL HEALTH (GH) PILLAR

Overview

Over the past 40 years, USAID's health programs have made major contributions to improving the health and lives of millions of people in developing and transitional countries. Yet despite significant improvements in many global health indicators in recent decades—including increasing life expectancy and child survival—success has been uneven, and the remaining challenges are substantial. In some countries, general development gains are now at risk of being reversed by the cumulative impacts of HIV/AIDS and other epidemics.

USAID, in cooperation with partners and other donors, is addressing the following critical issues:

- HIV/AIDS, malaria, tuberculosis, and other infectious diseases constitute an enormous public health challenge. At the end of 2002, there were 42 million people living with HIV/AIDS worldwide, 3.2 million of whom are children. To date, the epidemic has hit the African continent hardest, but India, Russia, China, and other countries in Asia and Latin America are facing rising infection rates. USAID and other donors and partners have begun to make some progress in combating the epidemic, and important lessons have been learned that are informing current program planning.

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

- More than 12 million children under five still die each year in the developing world, most of them from preventable causes. The infectious childhood diseases remain common in poor countries and are much more likely to be life-threatening. These include respiratory and diarrheal diseases, malaria, and measles and other vaccine-preventable diseases. More than half of all child deaths are associated with acute or chronic malnutrition. Most can be averted with simple interventions that USAID's child health programs both provide and transfer to local populations.

Poor health and lack of basic health and social services in developing countries can be profoundly destabilizing for those societies. The spread of HIV/AIDS and other infectious diseases is poised to erase decades of development progress in some countries.

Benefits to the American Public

The health status of populations worldwide has a number of important implications for the United States. In a world of increased travel, immigration, and commerce, we are all more vulnerable to infectious diseases, which do not recognize national borders. At the same time, the widespread inappropriate use of antimicrobial drugs (antibiotics and other drugs used to treat infections) is causing new disease strains that are resistant to conventional therapy. It is more costly, and sometimes impossible, to successfully treat these new strains. Safeguarding the health of the American public is closely linked to the prevention and control of infectious diseases worldwide and to the rational use and management of antimicrobial drugs in all countries.

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

What USAID Is Doing to Promote Global Health

USAID's Global Health (GH) pillar focuses on improving the quality, availability, and use of key services in the following five areas:

1. **Family planning and reproductive health:** USAID's voluntary family planning programs assist couples in avoiding unintended pregnancies. This reduces maternal and child illness and mortality and helps parents provide for their children. These programs also aim to prevent and treat sexually transmitted diseases.
2. **Child health and nutrition:** Child survival interventions target the major childhood killers, including malnutrition, diarrheal disease, acute respiratory infections, and vaccine-preventable diseases. USAID programs continue an aggressive effort to eliminate Vitamin A and other micronutrient deficiencies.
3. **Maternal and infant health:** Maternal health activities aim to reduce maternal deaths and adverse outcomes associated with pregnancy and childbirth. This is accomplished through improving nutrition, health education, and access to both routine and emergency obstetric and newborn services.
4. **HIV/AIDS:** HIV/AIDS programs address prevention, care and treatment of those living with the disease, and strengthening of host government health policies, including social services for orphans.
5. **Other infectious diseases of major public health importance:** USAID's infectious disease programs target malaria, tuberculosis, and other diseases that have significant impacts in developing countries, and antimicrobial drug resistance.

The Bureau for Global Health provides superior technical support to the field, state-of-the-art research, and global leadership. Bureau accomplishments during the FY 2002 include the approval by the Food and Drug Administration of the Jadelle hormonal implant for use over five years; reduced prices for condoms and oral contraceptives, and research documenting the health benefits of spacing births three or more years apart. In all of its health programs, USAID promotes public and private partnerships in order to leverage limited funding, minimize overlap and waste, and maximize program effectiveness.

Global Health Goal: Stabilize World Population and Protect Human Health

Five Agency-level strategic objectives correspond to the focal areas listed above and delineate measurable outcomes that support the Agency's overarching global health goal:

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

Measuring these and other important health indicators in developing countries is often difficult because of a lack of routine and reliable government collection of health-related information. USAID itself sponsors data collection and evaluation in many countries through general population-based surveys and specific project assessments. Because of lag time in collecting and reporting, most of the data presented here are for fiscal or calendar years 2001 (or even 2000).

Global Health Objective 1: Reduce unintended and mistimed pregnancies

USAID has been a world leader in supporting voluntary family planning programs in developing countries for

more than 35 years. By enabling women and couples to have only the number of children they want and helping them space their children two or more years apart, family planning can dramatically reduce the proportion of maternal and infant deaths worldwide. Still, millions of women who desire family planning services to space their children and limit their families currently have no access to such services.

Family planning programs have had an important stabilizing impact on population growth, contributing to a decrease in the average number of children per family in developing countries (excluding China) from more than 6 in the 1960s to the current level of 3.5. In 2002, approximately 41% of married women in less-developed countries (excluding China) used modern contraceptives.

The availability of effective contraceptives is also important in reducing abortion rates. This has been demonstrated dramatically in many countries in the former Soviet Union. Before 1990, when contraceptive supply was very limited, abortion was commonly used for fertility control. The recent development of family planning services has resulted in a marked reduction in abortions.

USAID efforts to reduce unintended and mistimed pregnancies embrace a number of approaches:

- Improving the delivery and quality of family planning services by training health professionals; upgrading family planning facilities; and strengthening government information, management, and procurement systems
- Integrating family planning and maternal child health care services
- Disseminating family planning information widely through mass media information, education, and communication (IEC) activities
- Supporting the provision of family planning services by the private sector and nongovernmental organizations (NGOs)
- Ensuring and increasing the supply of contraceptives, especially for poor and underserved rural populations, through the use of social marketing strategies
- Investigating new contraceptive products and service approaches

Context Indicator for Reduction in Unintended and Mistimed Pregnancies

Context Indicator: Total Fertility Rate in USAID-Assisted Countries

Globally, fertility rates are falling. This is seen most clearly in the group of 23 USAID-assisted countries that had very high fertility rates (defined as an average of more than five children per woman) in 1989. By 2001, only 10 of those countries continued to have total fertility rates (TFRs) exceeding 5. Similar progress is indicated in the number of USAID-assisted countries reporting fewer than three births per woman. Between 1989 and 2001, the number of these countries increased from 4 to 12, as illustrated in table 3.15.

Performance Indicator: Contraceptive Prevalence Rate

The contraceptive prevalence rate (CPR) is widely used as a measure of the proportion of women who choose to regulate their fertility and are able to obtain contraceptive services. This figure correlates very well with the total fertility rate and is another context indicator that USAID uses to track program performance. Over the past decade, there has been an increase in

Table 3.15

Context Indicator: Total Fertility Rate in USAID-Assisted Countries[27]

Number of Countries					
Rate	1989	1992	1995	1998	2001
Less than 3	4	6	8	11	12
3 to 4.9	18	20	20	20	21
5 or more	23	17	15	12	10
Not available	1	0	0	0	0
Totals (reporting countries)	46	43	43	43	43

Sources: Demographic and Health Surveys; Centers for Disease Control and Prevention surveys; U.S. Bureau of the Census International Database.
Data Quality: See annex.

the number of countries with a CPR greater than 50% and a parallel decline in the number of countries with a CPR under 16%. The period from 1998 to 2001, in particular, has shown a rapid rise in the number of countries with high CPRs (greater than 50%) and a similar drop in those in the lowest category (under 16%). USAID's approach, now supported by other donors, is succeeding and will be continued.

Performance Indicator: Average Annual Percentage Point Increase in CPR

The performance standard for USAID's major family planning programs is a 1% increase in CPR per year. Table 3.17 shows that from 1998 to 2001, 76% of USAID country programs met or exceeded the target of CPR increase of 1 percentage point per year. The superior performers (e.g., Nicaragua, Paraguay, Cambodia, and Malawi) differ in terms of their economic and other background conditions and thus demonstrate that rapid changes in contraceptive prevalence can occur in a variety of settings when quality services are made available. The countries that failed to meet this target in 2001 either already have a high-level of contraceptive prevalence (Indonesia), have strong religious opposition to family planning (the Philippines), or have a variety of other inhibiting factors, such as poor health infrastructure or major political constraints (Benin, Mali, and Guinea).

Strategic Objective Performance

USAID's general target for the Global Health Objective of reducing unintended or mistimed pregnancies is that at least 85% of field strategic objectives in this area will meet or exceed their targets for the year, with no more than 10% not met and 5% or fewer not available.

In FY 2001, 16 operating units identified family planning as the primary element of their health programs, down from 19 in FY 2000. This reduction is a feature of the assessment system and does not represent a reduction in the total investment in family planning programs. The percentage of these programs meeting or exceeding their targets in FY 2001 reached 88%,

Table 3.16: Performance Indicator: Married Women Ages 15–49 Using Modern Methods of Contraception

Number of Countries (34 reporting)					
Rate	1989	1992	1995	1998	2001
50% or more	1	2	5	7	12
35% –49%	7	10	9	8	5
16% –34%	11	7	6	8	11
Less than 16%	15	15	14	11	6
Data not available	0	0	0	0	0

Sources: Demographic and Health Surveys and Reproductive Health Surveys.
Data Quality: All figures are national estimates derived from results of Demographic and Health Surveys.

[27] Data reflect only countries with significant USAID population programs. Total fertility rate is an estimate of the number of children born to each woman. It is a measure of the overall impact of forces that work together to reduce family size, including factors unrelated to USAID or other programs, such as conflict or economic crises.

Table 3.17: Performance Indicator: Average Annual Percentage Point Increase in CPR over Previous Three Years

Number of Countries (Total number of reporting countries = 34)				
Rate of Increase	**1989 – 1992**	**1992 – 1995**	**1992 – 1998**	**1998 – 2001**
3.0% or more	0	0	1	4
2.0% – 2.9%	4	3	4	9
1.0% – 1.9%	16	20	19	13
0% – 0.9%	14	11	10	8
Percentage meeting or exceeding USAID target	59%	68%	71%	76%

Sources: Demographic and Health Surveys and/or Reproductive Health Surveys (forthcoming).
Data Quality: All figures are national estimates derived from results of Demographic and Health Surveys.

compared with 95% in the previous year (see table 3.18). The percentage of objectives not met was essentially constant from FY 2000 to FY 2001 (at 5% and 6%, respectively). One of the objectives was not available in FY 2001, whereas all were available in FY 2000.

Reducing Unintended and Mistimed Pregnancies

Operating units that met their strategic objective targets

Quality of family planning services, contraceptive supply, and public education in Guinea, Nigeria, Romania, and Honduras

USAID contributed to the steady reduction of the number of unintended pregnancies through public- and private-sector activities in Guinea. USAID's interventions both improved the supply of contraceptives and the quality of family planning (FP) services. In Upper Guinea, 63% of women (compared with a baseline of 11% and a target of 15%) received family planning counseling according to Ministry of Health norms and procedures. In addition, thousands of Upper Guineans received information about avoiding unwanted pregnancies and preventing Sexually Transmitted Infection/Human Immunodeficiency Virus/Acquired Immunodeficiency Syndrome (STI/HIV/AIDS) during an ongoing campaign targeting young people. Also, training sessions related to FP and HIV/STI prevention were provided to 682 community leaders.

Table 3.18:
Performance Indicator: Percentage of Strategic Objectives Meeting Targets

Category	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
Exceeded	30%	42%	25%	90%	90%
Met	70%	53%	63%		
Not Met	0%	5%	6%	10%	10%
Not Available	0%	0%	6%		
Number of SOs Reported	27	19	16		

Source: USAID missions, *Annual Reports*.
Data Quality: Missions are relied on to produce accurate reports, which are reviewed in Washington.

In 2001, USAID's efforts to increase contraceptive supply and demand led to a dramatic increase in the use of contraceptives, as measured by couple-years of protection (CYPs) in Nigeria. Supply flowed through 2,000 commercial outlets nationwide, 3,000 community-based distributors, and 60 clinics. Contraceptive use in Nigeria increased by nearly 50% (from 953,030 to 1.4 million[28] CYPs), more than 4 times the 10% increase targeted for FY 2001.

Before 1990, contraception was forbidden in Romania, and women used illegal abortion as a primary method of fertility regulation. When contraceptives were introduced after 1990, the government system made contraceptives available only from family planning clinics, which were not easily accessible or affordable for rural and poor populations. In addition, there was no system in place for managing supplies of contraceptives in the country. USAID, with its

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[28] An index of contraceptives distributed, taking into account the different efficacy of different methods. Thus, 150 condoms or 15 cycles of pills are each one "CYP."

partners, designed an information and logistics system in collaboration with the Government of Romania. In 2001, for the first time, the Ministry of Health and Family Planning in Romania itself allocated funds for contraceptives to be procured and distributed free of charge to poor women. Romania's logistics system is now serving as a model for other countries on how donors and Health Ministry officials can rationalize contraceptive supply and demand and help to serve some of the most vulnerable populations in the process.

In Honduras, CYP levels achieved in 2001 were 29% over the planned level and were 4% higher than the outstanding result attained in 2000. The new national health survey data from 2001 (NEHFS)—the completion of which was another major achievement in itself—show that modern contraceptive prevalence increased 10 points, from 40% to 50%, in the past five years (an increment of this magnitude is rarely seen in a five-year period), with a better-than-expected increase in rural prevalence. The impact is also clear: total fertility declined from 4.9 in 1996 to 4.4 in 2001. As the only major donor in family planning, USAID can directly link its support of public and private providers to these achievements.

Using proven tools—many of which, like oral rehydration therapy and Vitamin A supplementation, were developed with USAID support—child survival programs have demonstrated the ability to save children's lives and improve their health and nutritional status, even in the poorest countries.

Global Health Objective 2: Improve infant and child health and nutrition and reduce infant and child mortality

Since the 1980s, USAID has been a global leader in designing and implementing successful child survival programs. Using proven tools—many of which, like oral rehydration therapy and Vitamin A supplementation, were developed with USAID support—child survival programs have demonstrated the ability to save children's lives and improve their health and nutritional status, even in the poorest countries. Mortality of children under five in developing countries (excluding China) has declined from approximately 105 per 1,000 live births in 1985 to approximately 70 per 1,000 in the 2000. In human terms, this means that millions of children's lives are saved every year and millions more children avoid the potentially severe developmental consequences of infectious diseases coupled with malnutrition.

The World Health Organization identifies the major causes of death for children under five as perinatal causes (20%), pneumonia (19%), diarrhea and resulting dehydration (15%), measles (8%), malaria (7%), and HIV/AIDS (3%). All other causes account for the remaining deaths (28%). Malnutrition is directly or indirectly associated with more than 50% of child deaths.

USAID's child health programs are strategically aimed to prevent and treat these conditions through a combination of approaches:

- Increasing immunization coverage by supporting the integration of immunization into basic newborn and primary care services. Globally, USAID supports the Expanded Program on Immunization (EPI), as well as National Immunization Days (NIDs) for measles, polio, and other diseases
- Expanding the provision of micronutrients, such as Vitamin A, which has been found to be highly effective in protecting children against a broad range of diseases and disabilities; iron to prevent anemia; as well as folate, iodine, and others
- Promoting the importance of exclusive breast-feeding and appropriate child-feeding practices to combat infant malnutrition and diarrhea and to increase infants' immune function
- Promoting the adoption of the Integrated Management of Childhood Illnesses (IMCI) strategy of child health care, through training primary health care physicians and nurses in effective pediatric care and educating mothers and other caregivers about safe home care, as well as warning signs that indicate when a child needs professional evaluation
- Supporting disease control and surveillance efforts of regional and international organizations such as the Pan American and World Health Organizations (PAHO and WHO) and developing information systems that allow programs to be

appropriately targeted to the populations in need

- Providing food to supplement the diets of young children and pregnant and lactating mothers. These development (nonemergency) resources are also used to support related interventions that improve child survival and nutrition, such as promotion of exclusive breast-feeding, prevention and treatment of preventable childhood diseases, increased micronutrient consumption, and improvements in antenatal care through interagency agreements with the U.S. Department of Agriculture, under P.L. 480, Title II.

Context Indicator: Child Mortality

USAID uses child mortality rates, defined as the number of deaths per 1,000 children under the age of five years, as a context indicator to gauge the impact of its child survival programming. Overall, progress has been steady over the 13-year period shown in table 3.19, but uneven. Since 1989, the number of reporting countries with child mortality rates under 50 has grown from 5 to 17. At the same time, there has been little improvement in the number of countries with the worst rates (i.e., 200 or more deaths per 1,000 children). All remaining countries with child mortality rates exceeding 150 are in sub-Saharan Africa, in countries where child health programs face challenges such as civil conflict, famine, and extreme government corruption.

Table 3.19
Context Indicator: Under-Five Mortality Rate in USAID-Assisted Countries

	Number of Countries (Total number of reporting countries = 49)				
Rate per 1,000 Children	1989	1992	1995	1998	2001
Less than 50 (best)	5	6	11	14	17
50–99	16	18	12	10	8
100–149	8	10	12	13	12
150–199	12	11	10	7	7
200 or more (worst)	6	4	4	5	5
Data not available	2	0	0	0	0

Sources: Demographic and Health Surveys and U.S. Bureau of the Census, International Database.
Data Quality: (1) Many countries where USAID operates do not have vital statistical reporting systems; therefore, some data are estimated, based on the most recent available survey data or extrapolations from selected studies. (2) This indicator measures the final impact of many factors, including many outside the sphere of health services, per se. (3) Data are presented in three year intervals because change in this indicator occurs slowly.

Clearly, although not all progress in this area is due to our efforts, USAID, working with other donors and with host countries, has seen real improvements.

Strategic Objective Performance

USAID's Agencywide performance target for reducing child mortality is that at least 85% of strategic objectives in this area will meet or exceed their targets for the year, with no more than 10% not met and 5% or fewer not available.

In FY 2001, 16 operating units identified child survival as the primary component of their health programming, an increase of one over the previous year (see table below). All 16 of these operating units (100%) met or exceeded their performance targets, up from 93% in FY 2000. No program was assessed as falling short of targets in FY 2000 or FY 2001. In FY 2001, all operating units' objectives were assessed, an improvement from the previous year, when one was not.

Improving infant and child health and nutrition and reducing infant and child mortality in Ethiopia, Madagascar, Philippines, Indonesia, and Honduras

Examples of strategic objectives that met targets

USAID/Ethiopia has designed an effective, multifaceted child health program, resulting in a range of accomplishments. A Title II Project Final Evaluation found that a five-year food supplementation program in one region resulted in a decrease in the percentage of children under five who were stunted from 61.1% in FY 1997 to 39.5% in FY 2001. The prevalence of diarrhea and the percentage of children who were underweight were also reduced. In addition, almost 14 million children were vaccinated against polio in the FY 2001 national polio campaign, as compared with 11 million in FY 2000, with a U.S. Government contribution of approximately 50% to the campaign cost.

In Madagascar, USAID has contributed to a major turnaround in the National Immunization Program and other positive improvements in child health.

Table 3.20
Performance Indicator: Percentage of Strategic Objectives Meeting Targets

Category	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
Exceeded	22%	13%	19%	95%	95%
Met	70%	80%	81%		
Not Met	4%	0%	0%	5%	5%
Not Available	4%	7%	0%	0%	0%
Number of SOs Reported	27	15	16		

Source: USAID missions, *Annual Reports*.
Data Quality: Missions are relied on to produce accurate reports, which are reviewed in Washington

Children receiving DPT3 immunizations increased nationally from 48% in 1997 to 55% in 2000. In USAID focus areas, 2001 data show DPT3 rates at 94%. Overall, 87% of infants are completely vaccinated in the USAID sites, compared with 44% nationwide. Exclusive breast-feeding of infants 0–6 months of age increased from 46% to 83% in target groups. In districts supported by USAID, the percentage of children 12–23 months of age receiving appropriate Vitamin A supplements was 76%, compared with 50% nationally.

Approximately half a million women die every year because of complications associated with pregnancy and childbirth—almost all of them in the developing world. These mothers leave behind 2 million maternal orphans.

The percentage of children aged 12 months or less in the Philippines who received their third dose of DPT increased to 80.5%, exceeding the FY 2001 target of 69%. USAID activities in addressing Vitamin A deficiency among children aged 6–59 months resulted in Vitamin A coverage of 75.6%. The beneficiaries of these activities are the approximately 10 million children below the age of five whose health will significantly improve as a result of activities implemented under the USAID-supported program.

Both urban and rural Indonesian families are struggling to cope with rising poverty, as evidenced by the increasing number of urban street children and children suffering micronutrient deficiencies. In Indonesia's four largest cities, 38 indigenous NGOs are using USAID financial and technical assistance to improve the health and welfare of street children. With USAID support, 18 million preschool children receive Vitamin A capsules. In 2001, it is estimated that the lives of some 35,000 children under five were saved by this cost-effective child survival intervention.

Malnutrition levels in Honduran children under age five declined from almost 39% in 1996 to 32% in 2001, despite damage and dislocation following Hurricane Mitch and the serious drought in 2001. The evaluation of the CARE Title II food program showed a similar 17% decline in malnutrition in its intervention areas. Immunization coverage levels for children remained above 85% for children under age two. Iron deficiency anemia was first measured in 2001 in a USAID-supported national health survey. It showed that 15% of women and 30% of children under age five were anemic, identifying a need to design appropriate interventions.

Global Health Objective 3: Reduce deaths and adverse health outcomes to women as a result of pregnancy and childbirth

Maternal health is central to the well-being of children and families everywhere. This is particularly true in developing countries, where social safety nets may be minimal or nonexistent. However, in these same settings, women's health and survival can be especially precarious. Approximately half a million women die every year because of complications associated with pregnancy and childbirth—almost all of them in the developing world. These mothers leave behind 2 million maternal orphans. Newborns whose mothers die in childbirth are 10 times more likely to die within the first two years of life. Ninety-five percent of maternal deaths are preventable.

According to the World Health Organization, the chief causes of maternal mortality worldwide are severe bleeding (24%), infection (15%), unsafe abortion (13%), eclampsia (12%), obstructed labor (8%), other direct causes (8%), and indirect causes (20%).

USAID promotes a set of feasible, low-cost interventions and best practices designed to achieve the greatest possible impact in reducing mortality among mothers and newborns. Interventions include improvements in maternal nutrition, birth preparedness, deliveries attended by medically trained personnel, management of obstetrical complications, postpartum care, and postabortion care. USAID pursues its maternal health and safety objectives by:

- Improving systems to deliver basic maternal/child health and family planning services
- Increasing the percentage of births attended by a trained provider, through the training of nurse midwives and physicians
- Improving prenatal care, especially in the area of maternal nutrition
- Improving obstetric care, especially emergency obstetric care (EOC), as well as postabortion care (PAC), by training health professionals and upgrading maternal health facilities[29]
- Promoting birth-related community education and support efforts
- Supporting research to improve data sources regarding maternal mortality, and development of life-saving interventions

Progress in reducing maternal mortality has been uneven. Countries where substantial reductions have been achieved include Egypt, Honduras, Bangladesh, and Morocco; yet in much of sub-Saharan Africa, there has been little progress. The AIDS epidemic is now contributing to maternal mortality in both direct and indirect ways.

Strategic Objective Performance

USAID has a general target for reducing maternal mortality and adverse affects of pregnancy and delivery, which is that at least 85% of strategic objectives in this area will meet or exceed their targets for the year, with no more than 10% not met and no more than 5% not available.

In contrast to GH's other strategic objectives, nearly 40% of all USAID maternal health funds and activities are managed through central or regional programs. While mission programs in maternal health tend to be small, they draw on expert technical assistance from GH and work in close conjunction with activities under the other GH strategic objectives. From FY 2000 to FY 2001, the number of operating units identifying this as their primary strategic objective declined from 15 to 10 (see table 3.21). This does not represent a reduction in USAID's activity in this area. In FY 2001, 9 (90%) of the 10 operating units met or exceeded their targets under this objective, and none was assessed as not meeting its target. For FY 2001, one operating unit did not submit a self-assessment for this objective, compared with two units the year before.

Providing life saving obstetrical skills to medical personnel—physicians, nurses, and nurse-midwives—is central to improving the survival of mothers and infants. Even among healthy women, some birth complications are not predictable in advance and require very rapid and skilled intervention. A

[29] USAID does not support provision of abortions or advocacy of abortion as a family planning method. USAID provides training in PAC solely as a lifesaving obstetric intervention.

Table 3.21
Performance Indicator: Percentage of Strategic Objectives Meeting Targets

Category	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
Exceeded	0%	17%	20%	90%	90%
Met	60%	75%	70%		
Not Met	0%	0%	0%	10%	10%
Not Available	40%	8%	10%	0%	0%
Number of SOs Reported	5	15	10		

Source: USAID missions, *Annual Reports*.
Data Quality: Missions are relied on to produce accurate reports, which are reviewed in Washington.

large body of research indicates that traditional birth attendants are not able to intervene successfully in birthing emergencies to save the lives of the mother and child. Effective training of medically-trained birth attendants and facilitating their attendance at all births are pivotal to reducing birth-related deaths. Table 3.22 indicates that slow progress is being made in increasing skilled birth attendance in 13 countries where USAID is focusing its maternal health programming.

Reducing deaths and adverse health outcomes to women as a result of pregnancy and childbirth in Bolivia and South Africa

Examples of strategic objectives that met targets:

As part of its participation in the Latin American Maternal Mortality Initiative, USAID helped the Bolivian Ministry of Health and local nongovernmental organizations implement activities to increase the quality and use of essential obstetrical care (EOC) at health facilities. The activities helped families, leaders, and community health workers strengthen clinical services, promote supportive maternal health policies, and develop community transportation and financial plans for EOC. In one district, maternal deaths fell from 5 in 1999, to 2 in 2000, to 1 in 2001. There was also a dramatic reduction in hospital neonatal mortality from 12% to less than 1% between January 2000 and June 2001.

As part of the South African provincial quality assurance program, four hospitals in Mpumalanga Province have focused on decreasing perinatal mortality. In each hospital, a quality improvement team identified performance gaps in newborn care and developed solutions. One hospital developed and adapted guidelines for managing life-threatening newborn conditions, such as asphyxia and hypothermia. In 2001, neonatal mortality at the hospital decreased from more than 30 deaths per 1,000 live births to less than 15, while stillbirths decreased from 20 per 1,000 births to less than 10.

Table 3.22: Performance Indicator: Percentage of Births Attended by Medically Trained Personnel

	Number of Countries		
Rate	1990 –1994	1995 –2000	2000
Less than 25 %	1	0	N/A
25–49 %	6	5	N/A
50–74 %	4	5	N/A
75 % or more	2	3	N/A
Total	13	13	

Sources: Demographic and Health Surveys and Reproductive Health Surveys.
Data Quality: Standardized survey methodology, with careful attention to quality control.

Global Health Objective 4: Reduce HIV transmission and the impact of the HIV/AIDS pandemic

The HIV/AIDS pandemic constitutes an enormous public health challenge in the developing world, in both medical and development terms. As the disease spreads, its impact on individuals, families, communities, and whole societies may erase decades of development progress. About 95% of people living with HIV/AIDS live in developing countries where poverty, inadequate healthcare systems, and migration are contributing to the spread of the disease.

Since HIV was first recognized in 1981, more than 60 million people have become infected with the virus. At the end of 2002 the total number of people living with HIV/AIDS worldwide reached 42 million. About 92% (38.6 million) are adults, and half of these are women. There are now 3.2 million children under the age of 15 living with AIDS. In 2002, 3.1 million adults and children died of AIDS. About 5 million new infections occurred in 2002, and 800,000 of these were in children under the age of 15. In 88 countries, by the end of 2001, 13.4 million children under the age of 15 had lost a mother, father, or both parents to AIDS. This number is expected to reach 25 million by 2010.

In recent years, international attention and commitment to fighting HIV/AIDS have grown considerably. Resources are increasing, and evidence is emerging that prevention strategies are having an impact. Since 1999, USAID has nearly tripled the resources it is directing toward the H1V/AIDS pandemic, to $510 million in FY 2002. The Agency's strong commitment to leadership in this area is reflected in major organizational initiatives as well, including: formation of a new Office of HIV/AIDS (OHA) within the Bureau for Global Health; development of an Expanded Response Strategy that focuses on global HIV/AIDS prevention, care, treatment, surveillance and monitoring program effectiveness; and, key involvement in establishing the Global Fund to Fight AIDS, Tuberculosis and Malaria.

USAID's efforts to combat the global HIV/AIDS epidemic include the following program approaches:

- Expanding behavior change interventions, with an emphasis on reaching high-risk groups and youth
- Reducing risk behaviors, including delaying sexual debut, decreasing number of sexual partner, and increasing the use of condoms
- Improving sexually transmitted infection (STI) treatment services, including the delivery of counseling services and the development of "user-friendly" delivery sites (e.g., for youth)
- Increasing the supply of critical commodities, including condoms and HIV diagnostic tests, with emphasis on social marketing
- Supporting efforts to reduce the stigma of HIV/AIDS
- Supporting efforts to reduce mother-to-child transmission (MTCT)
- Establishing care and treatment programs for HIV infected person and increasing the supply of commodities, especially pharmaceuticals
- Improving surveillance systems for HIV seroprevalence, AIDS cases and behavior change data
- Engaging with host governments to improve HIV/AIDS policy.

These are effective interventions and approaches that have only been partially implemented worldwide, due to resource, political, and other constraints. Even so, USAID's programs, combined with the many other international efforts, have succeeded in averting hundreds of thousands of HIV/AIDS cases.

While concentrating efforts on 23 "Intensive Focus" countries[30], USAID provides HIV/AIDS assistance to nearly 60 countries worldwide. In the 23 focus countries, USAID is targeting approximately 1 billion young people and adults to prevent new HIV infections and provide support to those already infected and their families.

In 2002, 3.1 million adults and children died of AIDS. About 5 million new infections occurred in 2002, and 800,000 of these were in children under the age of 15.

Context Indicator: Adult HIV prevalence rates in USAID-assisted countries.

No country in the world, including the U.S., has a complete registry of all persons with HIV infections that would allow exact calculation of the HIV prevalence rate in its population. Instead, prevalence rates are estimated, based on sampling of subgroups and an analysis of transmission patterns in that country. The data shown in Table 3.23 is derived from HIV infection rates in pregnant women and in selected male populations, allowing a good estimation of nationwide trends in HIV infection in countries where the infection is transmitted mainly through heterosexual contact. It is less representative and reliable, however, in

[30] USAID's 23 Intensive Focus countries are: Cambodia, Kenya, Uganda, Zambia, Ethiopia, Ghana, Malawi, Mozambique, Nigeria, Rwanda, Senegal, South Africa, Tanzania, Zimbabwe, India, Indonesia, Nepal, Brazil, Dominican Republic, Haiti, Honduras, Russia, Ukraine.

areas where most of the HIV infections occur in subpopulations that practice high-risk behaviors. In these countries, more targeted HIV prevalence data must be collected. Prevalence data needs to be understood in the context of local sexual behavior and other risks to better understand the true dynamics of the epidemic in each setting.

Table 3.23: Context Indicator: Adult HIV prevalence rates in USAID Intensive Focus Countries

Rate	1997	1999	2001
Less than one percent	6	6	6
1% to 4.9%	6	5	5
5% to 20.0%	10	11	9
20 % or more	1	1	3
Total countries	23	23	23

Source: UNAIDS, Center for Disease Control, and the Bureau of the Census estimates
Date Quality: Assured by these agencies

USAID is now establishing these improved epidemiological and behavioral surveillance systems (so called "second generation surveillance") to track changes over time and to facilitate more precise targeting of programs to combat HIV/AIDS.

What has been the impact of efforts to combat the pandemic? While HIV prevalence levels continue to rise in some countries, evidence is emerging that prevention strategies are having a measurable impact. In Sub Saharan Africa, the majority of USAID assisted countries have documented a "plateauing" in their HIV prevalence levels, particularly in the urban settings. This can be attributed to a number of factors, including reduction of risk behaviors at national scale due to HIV/AIDS prevention efforts. In a subset of countries (Uganda, Tanzania, Ethiopia, and Rwanda) HIV prevalence has measurably declined in the major urban areas. In another subset of countries (South Africa and Zambia) declines are now being measured specifically in younger age groups (15-19). The three graphs on page 155 present these trends for sub-Saharan Africa.

A decisive gauge of the impact of the campaign against AIDS is success in preventing new infections. UNAIDS, USAID, and WHO have developed a provisional methodology for estimating the number of infections averted as a result of prevention efforts. Based on this approach[31], USAID and its international partners averted an estimated 1.9 million HIV infections in 2001 in the 23 focus countries identified above. Key components of USAID's comprehensive programs contributed to this success, including distribution of nearly 500 million condoms and provision of HIV testing and counseling to 2.6 million persons in the 23 countries in 2001.

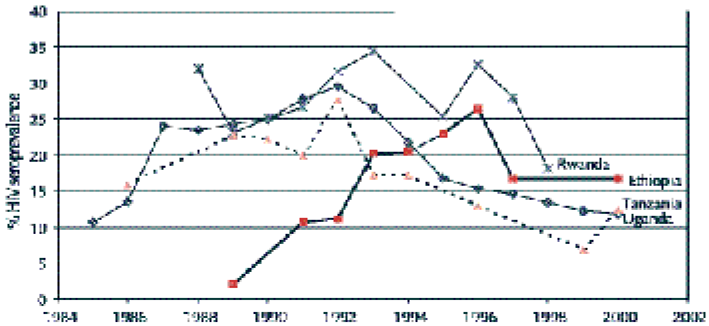
In 35 countries that received more than $1 million in FY 2001 for USAID-sponsored HIV/AIDS programming (including the 23 focus countries), over 2.1 million infections were averted in 2001. Table 3.24 summarizes averted infections and major preventive services provided by USAID in 2001.

In 1999, research studies demonstrated that a short course drug intervention could dramatically reduce the transmission of HIV from an infected mother to her newborn. USAID now supports prevention of mother to child transmission (MTCT) programs in 11 of the 23 intensive focus countries. Demand for these services is strong. In 2001, approximately 140,000 women were screened for MTCT services, 14,381 women received antiretroviral treatment to prevent transmission and an estimated 4,524 infant infections were averted by public sector programs. Ten new country programs[32] to prevent mother to child transmission are planned to begin in FY03, more than doubling the Agency's efforts in the prevention of mother to child transmission.

More than 75 USAID initiatives provide support to orphans and vulnerable children affected by AIDS in

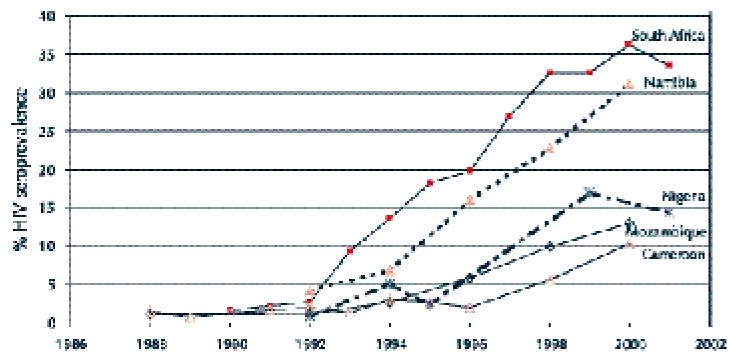
[31] Estimates prepared by the POLICY Project, Futures Group, November 2002. See Appendix 2 information regarding the methodology used to estimate averted infections. It should be noted that these are conservative estimates.

Countries with Declining Epidemics in Urban Areas
HIV Seroprevalence for Pregnant Women
Selected Urban Areas of Africa: 1985-2000



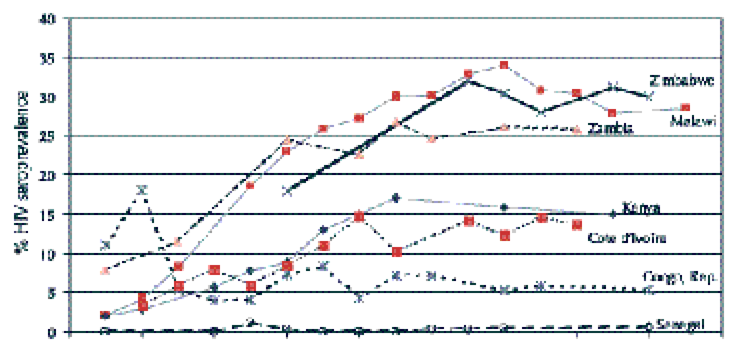
Note: Includes infection from HIV-1 and/or HIV-2.
Source: U.S. Census Bureau, HIV/AIDS Surveillance Data Base, 2002.

Countries with Increasing Epidemics in Urban Areas
HIV Seroprevalence for Pregnant Women
Selected Urban Areas of Africa: 1988-2001



Note: Includes infection from HIV-1 and/or HIV-2.
Source: U.S. Census Bureau, HIV/AIDS Surveillance Data Base, 2002.

Countries with Plateauing Epidemics in Urban Areas
HIV Seroprevalence for Pregnant Women
Selected Urban Areas of Africa: 1985-2001



Note: Includes infection from HIV-1 and/or HIV-2.
Source: U.S. Census Bureau, HIV/AIDS Surveillance Data Base, 2002.

Table 3.24: Estimated Averted Infections and 2 Key Preventive Services in USAID Intensive Focus and Expanded Response Countries, 2001

Indicator	23 intensive focus countries	36 of the 38 countries* receiving more than $1 million of USAID assistance
Infections averted	1.9 million	2.1 million
Clients of HIV testing and counseling	2.6 million	3 million
Condoms distributed through social marketing with USAID support	468 million	662 million

* The 36 countries represented in Table 20 are: USAID's 23 Intensive Focus countries (Cambodia, Kenya, Uganda, Zambia, Ethiopia, Ghana, Malawi, Mozambique, Nigeria, Rwanda, Senegal, South Africa, Tanzania, Zimbabwe, India, Indonesia, Nepal, Brazil, Dominican Republic, Haiti, Honduras, Russia, Ukraine); *PLUS*: Angola, Bangladesh, Benin, DR Congo, Eritrea, Guinea, Jamaica, Madagascar, Mali, Mexico, Namibia, Philippines, Uzbekistan. Data were not available for 2 of the 38 countries with USAID funding levels of $1 million or more in FY 2001: Egypt or Kazakhstan.

Source: The Futures Group

Data Quality: See footnote 31

24 developing countries or on a regional or global basis. These activities are multifaceted, including efforts to provide psychosocial support to HIV/AIDS affected children and families; education assistance; food security or nutritional supplementation; household economic strengthening; and access to health. A project in Zambia has supported 46 community orphans and vulnerable children's committees through which 90,000 children were reached during calendar year 2001. In Malawi, a program which is being implemented in 84 villages has provided food to almost 7,000 children, and 1,600 households have participated in agricultural production activities. Another activity in Malawi strengthens community organizations to support orphans and other vulnerable children; over 15,000 children have received care and support through village AIDS committees, and communal vegetable gardens benefit more than 6,000 vulnerable households per year. In Cambodia, 30 local nongovernmental and community-based organizations have been mobilized and strengthened; over 19,000 vulnerable children were reached with direct program services.

USAID is working with many other bilateral and international agencies to address the AIDS pandemic. In addition, USAID played a key role in the important development of the Global Fund to Fight Aids, Tuberculosis and Malaria.

USAID's Office of HIV/AIDS has established long term goals in its expanded response strategy, developed in 2001-02. In the intensive focus countries, USAID, in concert with other donors, aims to reduce the prevalence of HIV among 15-24 year-olds in high prevalence settings by 50% by 2007, and to maintain prevalence below 1% among 15-49 year-olds in low prevalence settings. USAID, in collaboration with its international and national partners, will also expand programs in high prevalence countries to: (1) ensure that at least 25% of HIV/AIDS-infected mothers have access to interventions to reduce HIV transmission to their infants; (2) help local institutions provide basic care and psychosocial support services to at least 25% of HIV-infected persons; and (3) provide community support services to at least 25% of children affected by AIDS. Monitoring systems are being established to measure changes in each of these important indicators.

USAID is working with many other bilateral and international agencies to address the AIDS pandemic. In addition, USAID played a key role in the important development of the Global Fund to Fight Aids, Tuberculosis and Malaria. The Global Fund is a public-private partnership established to attract, manage, and disburse additional resources from donors, foundations, and corporations to combat these three diseases. USAID seconded a senior staff member to lead the Technical Support Secretariat, and the Agency contributed $1 million to facilitate establishment of the Fund. To date, the U.S. Government has pledged $500 million, and deposited $275 million with the Fund, about half of

[32] Cambodia, Dominican Republic, Ethiopia, Honduras, Mozambique, Nigeria, United Republic of Tanzania, Zimbabwe, Guyana, Namibia.

Table 3.25
HIV/AIDS Performance Assessment

Category	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
Exceeded	13%	19%	28%	90%	90%
Met	81%	71%	63%		
Not Met	0%	5%	9%	10%	10%
Not Assessed	6%	5%	0%	0%	0%
Number of SOs Reported	16	21	32		
Source: UNAIDS, Center for Disease Control, and the Bureau of the Census estimates **Date Quality:** Assured by these agencies					

which was contributed through USAID. From these funds and the funds of other donors, the first round of grants was made in April, 2002. Fifty-eight countries and three multicountry groups were awarded $1.6 billion over five years for their HIV/AIDS programs. USAID has also provided technical assistance to many countries preparing grant proposals to the Fund. A second round of grants will be awarded in early 2003.

Strategic Objective Performance

In FY 2001, 32 field missions[33] identified strategic objectives for their HIV/AIDS programs. Of these, 28% exceeded their targets and another 63% met their targets. Nine percent (3 missions) did not meet their targets.

USAID measured the success of its HIV/AIDS programs in reducing the transmission and impact of HIV/AIDS against the following target: at least 85% of strategic objectives in this area would meet or exceed their own targets for the FY 2001, with no more than 10% of objectives not met, and 5% or fewer not assessed. The Agency exceeded its general target for HIV/AIDS activities in FY2001, with 91% of the missions having met or exceeded their targets. None of the programs was not assessed, representing an improvement over previous years (see Table 3.25).

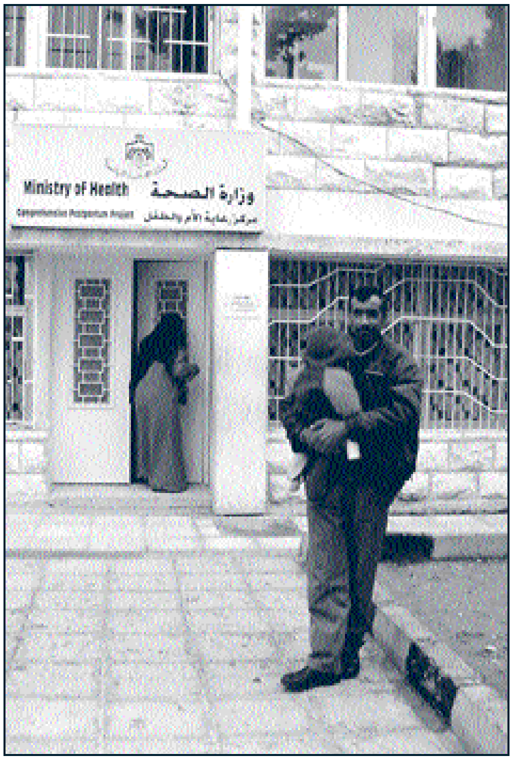
Reducing HIV Transmission and the Impact of the HIV/AIDS Pandemic in Uganda, Cambodia, South Africa, Bangladesh, and Russia

Strategic Objectives that met targets

Over the 1997-2001 strategy period, USAID/Uganda made significant progress. Investments of development assistance and child survival and health resources contributed to a 56% decline in HIV seroprevalence among 15 to 19 year-old pregnant women at sentinel surveillance sites and a 42% decline for 20 to 24 year-olds over the planning period. These are remarkable and encouraging achievements and Uganda's programming is now being used as a model for other countries.

Cambodia is currently facing the most serious HIV/AIDS epidemic in Southeast Asia. USAID/Cambodia achieved significant results in its HIV/AIDS programs in 2001 by encouraging high-risk populations to increase condom use, reduce commercial sex use and to seek treatment for sexually transmitted infections. Outreach programs for female commercial sex workers (FCSW) are concentrated in urban areas where the majority of sex establishments are located. By the end of FY 2001, USAID programs had conducted HIV outreach education for 4,187 sex workers. Other prevention programs, such as peer education, target men engaging in high-risk behaviors, such as those in military and police forces. During 2001, peer educators trained 28,044 military staff members and 9,026 policemen on safe-sex practices, modes of transmission and methods of prevention of HIV/STIs. In 2001, socially marketed condoms reached record sales of over 16.3 million. Because of USAID assistance, Cambodia has one of the most advanced HIV surveillance systems in Asia, which enables limited program resources to be targeted where they will do the most good. The National HIV Sentinel Surveillance (since 1999) and Behavioral Surveillance Survey (since 1997) have shown declining trends in HIV prevalence and increased condom use among all sub-groups known to be engaging in high-risk behaviors. During 1997-2000, HIV seroprevalence decreased from 39 percent to 31 percent among sex

[33] Thirty-two Field Missions included in Table 3.21 are: Bangladesh, Philippines, Guinea, Indonesia, Mexico, Senegal, Nepal, Brazil, India, Russia, Jamaica, Honduras, Mali, DR Congo, Cambodia, Ghana, Benin, Uganda, Angola, Nigeria, Haiti, Ethiopia, Congo, Tanzania, Rwanda, Mozambique, Kenya, Malawi, South Africa, Zambia, Namibia, Zimbabwe.



workers and from six percent to 3.1 percent among the police. National prevalence has declined from 3.9% in 1997 to 2.8% in 2001.

AIDS is South Africa's single greatest cause of death. Nationally, the annual HIV and syphilis prevalence survey showed that 24.5% of pregnant mothers attending antenatal clinics were HIV positive. Responding to this crisis, in FY 2001, USAID significantly increased the number and coverage of its HIV/AIDS activities addressing prevention, care, and support. Two programs focusing on vulnerable children also began during the reporting period, one targeting urban children, the other meeting needs of the rural poor. Both programs have strong community mobilization and prevention components, youth activities, and substantial care and support elements. These two NGO programs have forged strong partnerships with government services, especially in providing voluntary counseling and the prevention of mother-to-child transmission.

USAID's HIV/AIDS strategy continued to concentrate on high-risk groups in Bangladesh, as national HIV seroprevalence held steady at 0.2%. USAID activities in FY 2001 included sale and distribution of more than 1.5 million condoms to those at highest risk, STI treatment of more than 40,000 persons, 235,000 one-on-one peer counseling sessions, and group sessions that reached more than 1 million at-risk individuals. These efforts aim to change behavior patterns among high-risk groups that can accelerate the increase in HIV prevalence.

Given high rates of sexually transmitted infection and increasing drug use, youth in Russia are at particular risk for HIV infection. During 2001, USAID supported targeted HIV/AIDS prevention activities that reached an estimated 30,000 youth in Moscow and 28,500 in Saratov. In. addition, a weekly radio program "Minus Virus" in Saratov reaches about 70,000 young people with information about HIV and other reproductive health issues. Federal mass media messages targeting youth reached about 3.4 million viewers. An innovative Internet -based campaign reached an estimated 1.8 million youth nationally, of whom an estimated 30% live in Moscow.

USAID/Rwanda achieved significant results in its HIV/AIDS program during 2001. In partnership with the Family Health International (FHI)/IMPACT Project, USAID supported the national effort to develop voluntary counseling and testing (VCT) guidelines and an associated curriculum for training VCT counselors. These VCT centers achieved 108% of their client target number, serving 40,310 clients. In 2001, the mission launched the "KUBA" campaign for HIV prevention among Rwandan youth, the primary target of USAID/Rwanda's HIV/AIDS program. The campaign was launched with a nationally broadcast "Town Meeting" that reached an estimated 3.6 million youth through direct participation, radio, and television. To disseminate the KUBA message locally, JHU/PCS organized five provincial-level town meetings and collaborated with Rwandan parliamentarians to develop KUBA contests for poems, plays, stories, and posters involving 29,150 primary schoolchildren in 1,160 schools representing seven provinces. Over forty Rwandan musicians were trained to spread the KUBA message through music. In addition, FHI/IMPACT worked with four Catholic Dioceses in Rwanda to establish peer education programs for HIV prevention among youth. During 2001, approximately 40,000 youth ages 15-19 participated in these peer group activities.

Strategic Objectives that did not meet targets

Portfolio Change and Program Shortfall in Brazil

Brazil is the region's epicenter for HIV/AIDS and accounts for the majority (52%) of reported AIDS cases in Latin America and the Caribbean (LAC), a disproportionate amount given that Brazilians are only one-third of the region's population. While the USAID/Brazil HIV/AIDS program demonstrated many successes in FY 2001, overall, the SO did not meet expectations due to poor performance of one major program in the Mission's HIV/AIDS portfolio. In April, USAID/Brazil terminated this program because the contractor had not met their annual performance objectives and had spent most of the budget. As a result, the planned targets to provide technical assistance and training to strengthen the technical capacity of the Ministry of Health/AIDS Control Program and the AIDS Programs in four states and four municipalities were not achieved. The Mission has shifted resources to strengthen the more successful activities in its HIV/AIDS prevention portfolio, which include expanding condom social marketing initiatives, strengthening the management capacity of selected Brazilian NGOs, and supporting new operations research activities in HIV/AIDS prevention, tuberculosis (TB) control, and HIV/TB co-infection. In addition, the General Development Officer, the former USAID team leader for the HIV/AIDS portfolio, has been replaced by a Population/Health/ Nutrition expert and two host country professionals have been hired to manage the program under his direction. The Mission is presently developing a new, five year HIV/AIDS Strategy (2003-2007) in close collaboration with the Brazilian government and USAID/Washington.

Global Health Objective 5: Reducing the threat of infectious diseases of major public health importance

Since the beginning of USAID's Infectious Disease Initiative in 1998, the Agency has significantly stepped up its efforts in the battle against infectious diseases. These efforts have focused in particular on developing new technologies and approaches for the prevention and control of infectious diseases; building networks among U.S. Government agencies, multilateral donors, nongovernmental organizations (NGOs), and other bilateral donors; and establishing new infectious disease programs in more than 30 countries.

Under this strategic objective, the Agency places major emphasis on fighting two diseases that have a huge impact in developing countries: tuberculosis, which kills 2 million people; and malaria, which kills up to 2.5 million annually. Limiting the impact of these diseases depends on both prevention and treatment. A third major emphasis area under this objective is to respond effectively to the declining efficacy of antimicrobial drugs that are used to treat these and many other infectious diseases. That reduced efficacy stems largely from inappropriate use of the medications.

USAID's infectious disease efforts are focused on these subobjectives:

- Slowing the emergence and spread of antimicrobial resistance, targeted at the principal microbial threats to all countries: pneumonia, diarrhea, sexually transmitted diseases, tuberculosis and malaria
- Testing, improving, and implementing options for tuberculosis control
- Implementing new disease prevention and treatment efforts focused on malaria and other infectious diseases of major public health importance
- Strengthening surveillance systems, by enhancing detection capability, information systems, and data-based decision-making and response capacity

USAID has a general target for tracking progress in its efforts to control the spread of infectious disease, which is that at least 85% of strategic objectives in this area will meet or exceed their targets for the year, with no more than 10% not met and 5% or fewer not available.

Strategic Objective Performance

In FY 2001, 10 operating units selected the infectious disease SO as primary in their health program, an increase from 6 in the previous year. Of the 10, 80% met or exceeded their planned targets. In FY 2001, 20% of operating units reported that they did not meet their targets under this SO. All operating units under this SO submitted assessments for both FY 2001 and FY 2002.

USAID's progress in the implementation of an impact-oriented infectious disease strategy has been impressive. At the global level, the Agency has played an important role in initiatives such as STOP TB and Roll Back Malaria. At the national level, the Agency has strengthened and expanded country programs in order to reduce morbidity and mortality from TB and malaria, strengthened disease surveillance systems, and began to integrate the issue of antimicrobial resistance into USAID programs and training. Among USAID's specific accomplishments during the reporting period are the following.

Strategic objectives that met targets:

Currently, the most effective approach to treating TB and limiting its spread is directly observed therapy, short course (DOTS). In Honduras, USAID

Table 3.26
Performance Indicator: Percentage of Strategic Objectives Meeting Targets

Category	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
Exceeded	13%	17%	20%	85%	85%
Met	75%	83%	60%		
Not Met	0%	0%	20%	10%	10%
Not Available	13%	0%	0%	5%	5%
Number of SOs Reported	8	6	10		

Source: USAID missions, *Annual Reports*.
Data Quality: Missions are relied on to produce accurate reports, which are reviewed in Washington.

supported the implementation of the DOTS strategy in all health regions. During 2001, 95% of the health facilities were fully implementing the DOTS strategy, and the cure rate for the latest cohort was 85.4%, a major achievement.

In partnership with WHO's Africa Regional Office and the Centers for Disease Control and Prevention, USAID has been supporting the implementation and expansion of community TB services in Kenya, Malawi, and Uganda. In Malawi, diagnosis and supervision of the initial intensive phase of treatment was generally available at 39 secondary-level hospitals in 26 districts. It is now available at more that 200 public, private, and community settings. In Kenya, an additional 23 treatment centers within the community DOTS district are now offering DOTS, in addition to 3 secondary-level hospitals. In Uganda, 14 of 56 districts are providing decentralized services through newly created treatment centers, and 6 more districts will be ready to initiate services soon; as a result, the treatment success rate in Uganda has already increased from less than 40% to 60% in implementing districts.

Insecticide-treated netting (ITN) materials are one of the four key interventions to reduce mortality and morbidity due to malaria. USAID's NetMark project aims to promote and deliver ITNs to populations most vulnerable to malaria in a sustainable manner. Key to NetMark's strategy is a novel public-private partnership to promote the commercial distribution of ITNs. During 2002, NetMark launched commercial programs in Zambia, Nigeria, and Senegal. The initial results have exceeded expectations with more than 500,000 nets sold by June 2002.

USAID supported the development of a community management tool for malaria in the Mekong Delta region to identify and explore factors that are associated with consumer care-seeking behaviors, access to drugs, and practices that may affect the spread of multidrug-resistant malaria in these unique migrant populations. This tool is currently being applied in Cambodia and Thailand and is being used to identify interventions to promote a more rational approach to treatment in these communities and to develop indicators for surveillance of drug-use behaviors. Ultimately, these data will be triangulated with drug resistance monitoring and drug quality studies in the region.

In the mid-1990s, WHO's Regional Office for Africa (AFRO) developed a regional strategy for integrated disease surveillance and response. USAID has provided support to AFRO for technical expertise, guidelines development, epidemic response, training workshops, and key laboratory reagents, which has enabled the following to be achieved:

- Assessments of national disease surveillance systems were conducted in Chad, Congo-Brazzaville, Equatorial Guinea, The Gambia, Guinea, Nigeria, Mozambique, and Zambia, raising the total number of countries assessed to 28 of 46.
- In the past year, national five-year plans of action for the development of IDSR were completed in Burkina Faso, Equatorial Guinea, Gabon, Guinea, Mali, Zambia, and Botswana, for a total number of 23 of 46 countries.

Strategic objectives that did not meet targets:

The tuberculosis (TB) program for Mexico is the first ever program implemented between the Government of Mexico and USAID in full partnership. This SO did not meet its targets for the period. In December 2000, a new administration took office in Mexico and requested to review administrative and technical issues contained in the strategic objective grant agreement (SOAG) that had been signed in August 2000, causing significant delays during FY 2001. A new SOAG with the Government of Mexico was signed during FY2002. Laboratory and other equipment that had been procured prior to the implementation delays was already available in-country, and could be used immediately to strengthen Mexico's tuberculosis laboratory network and information systems in the 13 priority states.

DEMOCRACY, CONFLICT, AND HUMANITARIAN ASSISTANCE (DCHA) PILLAR

Overview

USAID plays an important foreign assistance role in promoting resilient, well-governed, capable states that are less vulnerable to violent conflict and the impact of natural disasters. The heightened threat of terrorism has placed a greater emphasis on helping states to move toward more effective, accountable, legitimate, and democratic governance.

USAID's Democracy, Conflict, and Humanitarian Assistance (DCHA) pillar integrates programs in democracy and governance, economic and social development, agriculture and food security, international disaster assistance, and postconflict transition initiatives that prevent the reignition of conflict. In addition, DCHA is in the process of creating a crosscutting approach to conflict prevention and management, with the goal of anticipating crisis, mediating conflict, and addressing the economic and political (or governance) causes of conflict.

Benefits to the American Public

By promoting and assisting the growth of democracy—by giving people the opportunity to peacefully influence their government—the United States advances the emergence and establishment of societies that will have more stable governments and become better trade partners. By facilitating citizens' participation and trust in their government, USAID's democracy efforts can help stop the violent internal conflicts that lead to destabilizing and costly refugee flows, anarchy and failed states, and the spread of disease. Our DCHA programs are important for our country's foreign policy and are among our most powerful national security tools. For example, we have strong national security interests in democratic governance, because famines do not take place in democracies, where governments are accountable to the people for their policies and actions. Famines invariably are the result of wars or of the self-destructive policies of authoritarian and dictatorial regimes.

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

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How USAID Promotes Democracy, Prevents Conflict, and Delivers Humanitarian Assistance

The pillar for Democracy, Conflict, and Humanitarian Assistance integrates efforts in preconflict prevention, resolution and management of ongoing conflicts, transitions, and reconstruction. USAID strengthens the performance and accountability of governance, which in turn improves stability, expands economic prosperity, and combats corruption that undermines economic development prospects. The Agency has also developed a more integrated response to assisting the increasing number of failing and failed states. These states help breed violent conflict and support international terrorism.

The Agency's new Democracy, Conflict, and Humanitarian Assistance pillar is supported by two interrelated goals:

- Strengthen democracy and good governance
- Save lives, reduce suffering associated with natural or man-made disasters, and reestablish conditions necessary for political and/or economic development.

Each of these goals, in turn, is supported by objectives described below. At the operating unit level, based on U.S. foreign policy objectives, host country needs and capacities, other donor programs, and Agency resource constraints, USAID missions and Washington offices pursue specific operating unit strategic objectives that align with Agency-level goals and objectives.

DCHA Goal 1: Strengthen Democracy and Good Governance

Support for democracy and confidence in democratic institutions are declining in many transitional democracies. Fragile democracies fail because of poor economic performance, stalled economic reforms, inequality, endemic corruption, dysfunctional rule of law, ethnic and religious differences, and violence. Increasingly, failed democracies and economies result in civil war and conflict. Nearly two-thirds of countries where USAID is currently working have had civil conflict over the past five years. Civil war has produced an unprecedented number of people who fled their homes in search of food and personal security. Estimates of displacement in 47 countries suggest that at least 25 million people were internally displaced by the end of 2001. These situations are marked by widespread violence; collapse of central political authority and public services; the breakdown of markets and economic activity; massive population dislocation; and food shortages leading to starvation, malnutrition, or death.

In this challenging environment, USAID works to strengthen democracies through programs directed towards four key broad objectives:

- Strengthen the rule of law and respect for human rights
- Encourage credible and competitive political processes
- Promote the development of politically active civil society
- Encourage more transparent and accountable government institutions

In addition to indicators linked to each operating unit strategic objective, the Agency uses a broad context indicator to measure the overall progress of democratic growth in USAID-assisted countries, as shown in table 3.27.

Over the past three decades, democracy and freedom have spread globally at an unprecedented rate. USAID's democracy and governance programs have played an important role in these historic accomplishments. Recent notable examples include transitions to democracy in Serbia and Indonesia and significant elections in Peru, Senegal, and Ghana. The global picture is clear. The number of "free" countries has increased from 12 in 1992 to 21 in 2001, and the proportion of countries classified as "not free" by Freedom House has fallen from 29% of 64 countries in 1989 to 25% of 64 in 2001.

The following sections describe Agency performance linked to these objectives.

Table 3.27
Context Indicator: Freedom House Index Scores in USAID-Assisted Countries
Countries with at least $1 million in FY 2000 in any DG Agency SO (2.1–2.4)
(Total number of reporting countries = 64)

	Number of Countries					
Category	1989	1992	1995	1998	2000	2001
Free	6	12	15	22	20	21
Partly Free	18	37	30	26	28	25
Not Free	19	12	18	16	16	16
Data Not Available	21	3	1	0	0	2

Note: Data reflect only countries with significant USAID democracy programs, plus the eight Eastern European countries that graduated from USAID assistance in the 1990s.
Source: Freedom House, *Freedom in the World 2001–2002.*
Data Quality: See annex.

DCHA Objective 1: Strengthen rule of law and respect for human rights

USAID helps establish effective legal systems, including reforming the legal code, establishing an impartial judicial system, and reducing corruption. A well-developed system of justice helps guarantee the protection of democratic rights while providing the legal framework for social and economic progress. USAID activities strengthen justice-sector institutions, codify human rights, and increase citizens' access to justice.

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

- Fighting corruption by establishing mechanisms for government

Over the past three decades, democracy and freedom have spread globally at an unprecedented rate. USAID's democracy and governance programs have played an important role in these historic accomplishments.

transparency and accountability [including measures guaranteeing freedom of information and supporting watchdog civil society organizations (CSOs), as well as training and technical assistance for government officials]

- Increasing citizen participation in the political system through support for CSOs (capacity building and advocacy training) and public information campaigns to inform people of their rights and how to exercise them
- Supporting the drafting of better laws, such as criminal procedure codes, and reforming the judiciary to uphold the laws through professional development of legislators

USAID has a general target for strengthening the rule of law and respect for human rights, which is that at least 85% of strategic objectives in this area will meet or exceed their targets for the year, with no more than 10% not met and 5% not available.

Twenty-four operating units have SOs with a primary focus on rule of law and human rights. Overall, the percentage of USAID programs involved in rule-of-law objectives meeting or exceeding their targets decreased from 85% in FY 2000 to 80% in FY 2001 (see table 3.28); however, five more programs were carried out in FY 2001, and most assessments fo these SOs were "not available," which lowered the "met" percentage.

Strengthening the rule of law and respect for human rights in Sri Lanka, Honduras, and the Caribbean

Strategic objectives that met targets

Respect for the rule of law and the development of an effective and equitable justice system are essential underpinnings of a democratic society. A recent study of USAID achievements in the rule-of-law area over the past 15 years, based on a combination of field and desk studies of nearly 30 countries, revealed that USAID is widely considered to be a pioneer and leader among donor agencies. USAID was the first among donor agencies to provide rule-of-law assistance explicitly for the purpose of promoting democratic governance, and it is frequently the first to take on the challenges of promoting the rule of law in highly sensitive political contexts. In addition, USAID is flexible and provided innovative responses to specific justice-sector and rule-of-law challenges. Examples of country programs are provided below.

Citizens' rights better protected in law and practice in Sri Lanka

USAID's democracy program in Sri Lanka exceeded targets during FY 2001, especially benefiting citizens from minority and disadvantaged groups. USAID assistance to the Human Rights Commission, which focuses on complaints against the police and military, continued to support efforts to prioritize complaints and reduce the response time. As a result, the Commission concluded 80% of the 1,713 complaints received against the armed forces. It also maintained a high success rate for cases involving disappearances, locating 70% of the missing persons reported. Other results include the following:

- For an election in FY 2001, USAID assistance supported proper documentation and reporting irregularities, while encouraging public involvement and awareness.

Table 3.28: Performance Indicator: Percentage of Programs Meeting Targetsn any DG Agency SO (2.1–2.4) (Total number of reporting countries = 64)

Category	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
Exceeded	15%	11%	17%	85%	85 %
Met	75%	74%	63%		
Not Met	5%	10%	8%	10%	10%
Not Available	5%	5%	12%	5%	5%
Number of SOs Reported	20	19	24		

Source: USAID operating units, *Annual Reports.*
Data Quality: Operating units are relied on to produce accurate reports, which are reviewed in Washington.

USAID provided funding for two NGOs to monitor and report violations of electoral laws and election-related violence. Under public pressure, the Elections Commissioner annulled results at 17 polling stations.

- To address the problem of intimidation of election officials, USAID provided assistance to the Institute for Human Rights (IHR) to work with the Public Employees' Union to set up a legal aid hotline to defend officials facing threats. Twenty-three of the officials who reported problems are now being represented by the IHR.

USAID helped NGOs form a consortium of three legal aid providers, which resulted in a reduction of duplication of effort between legal aid providers, increased coordination and case referrals according to specialty, and promoted financial sustainability through programs to implement payment according to means.

Strengthened rule of law and respect for human rights in Honduras

In Honduras, USAID exceeded the planned levels for this strategic objective through successful progress in the implementation of the newly introduced Criminal Procedures Code (CPC). This ushered in a revolutionary new criminal justice system in Honduras. The program strengthened courts' abilities to monitor judicial performance through the full implementation of an automated criminal case tracking system in three target criminal courts and the purging of 30,000 (24%) of the 125,000 pending cases. Transparency of the justice system has also increased through the implementation of a Citizen Information Center, which allows individuals to access information on the status of criminal cases. USAID also supported the Coalition for Justice, which proved to be an effective watchdog for ratification of the constitutional amendment for an independent judiciary and its secondary legislation. Lastly, USAID funded an international observation team to monitor the Honduran general elections. The team worked in close conjunction with the Embassy election observers to provide extensive coverage of Honduras, thereby ensuring more open, transparent, fair, and accurate elections.

Increased efficiency and fairness of legal systems in the Caribbean

Despite a strong democratic tradition, the legal system of the Organization of Eastern Caribbean States (OECS) countries suffers from dated management techniques and a resulting backlog of cases. Working to modernize the system, USAID has met its rule-of-law targets in the Caribbean to computerize case files, set up an alternative dispute resolution system, and train judicial staff. In addition, various national committees for the establishment of the Caribbean Regional Court of Justice (CCJ) have been set up, and a regional public education program on the attributes of the soon-to-be established CCJ have been initiated. Other key results include:

- Completed Phase One—setup and training—to establish a comprehensive case flow management system in all six OECS High Courts, as well as in the Court of Appeals
- Initiated Phase Two—entering all data from the past 20 years
- In Dominica, USAID instituted the first automated court-reporting system in the Eastern Caribbean

- Expanded and enhanced the Faculty of Law Library at the University of the West Indies campus in Barbados (the repository of all legal materials for the Commonwealth Caribbean) and developed a judicial training plan for judges, prosecutors, and course registrars

Example of strategic objectives with mixed results

Strengthened rule of law and respect for human rights in Russia

There are three elements of this strategic objective: Judicial and legal reform, human rights, and anti-corruption efforts. Twelve of 19 indicators met their targets; overall, the strategic objective was successful. But this overall performance mixes significant accomplishments with poorer performance. In 2001 the Putin administration made legal and judicial reform a high priority, resulting in commitments for increased financial appropriations for the judiciary as well as enactment of laws to elevate the status of the judiciary, expand the duties of judges, and mandate jury trials for criminal cases by 2003. USAID assistance also helped develop close working ties between the judiciaries of the U.S. and the Russian Federation. Through our gender law program, activists for women's rights and law enforcement officials have received specialized training. Implementation of the most important legislative advances in the legal system—such as the change from an inquisitorial to an adversarial system—will require new written guidelines and substantial training for lawyers, judges and other legal personnel. USAID is working to develop these programs.

A representative democracy that encompasses a free and fair competition, accountability, and transparency is crucial to development and our national interest.

On the human rights front, the picture is bleaker. USAID-supported western and Russian NGOs have collected large amounts of information documenting human rights abuses and an erosion of broadcast media and religious freedoms. USAID also supported the development of Moscow-Helsinki Group's network of human rights regional monitors. Half of these monitoring groups are now capable of sustaining themselves, and the European Union will be taking over funding of the remaining groups. Meanwhile, the Sakharov Center continued its seminars and workshops for schoolchildren and teachers on human rights issues, along with an active human rights publishing program.

Corruption continues to be pervasive in both economic and political institutions, including the judiciary. The code of ethics of Russian judges is only a few years old, with no history or consistent application. Russian NGOs working to combat corruption have become more prominent, and more government figures have taken strong stands against corruption in government. USAID supports a program of public-private partnerships to combat corruption in the Tomsk and Samara Regional Initiative areas.

While a foundation has been laid for progress in each of these areas, the prospects for significant improvement in establishing the rule of law depend heavily on continued political will within both the presidential administration and the judiciary. In any event, the development of the rule of law in Russia will be a long-term endeavor.

DCHA Objective 2: Encourage credible and competitive political processes

Although some elements of democracy can develop before competitive elections are held, a country cannot be fully democratic until its citizens can freely choose their representatives. A representative democracy whose elections encompasses free and fair competition, accountability, and transparency is crucial to development and our national interest. USAID is working to reform the political process by strengthening democratic culture among governments, citizens, and civil society organizations. Typical approaches to improve political processes included:

- Political party training
- Citizens' efforts to advocate for reforms, such as improved electoral codes
- Establishing autonomous electoral commissions
- Supporting domestic and international election-monitoring programs
- Local- and national-level voter awareness and education programs

that introduce democratic concepts and voting practices

- Providing technical assistance and training to independent media to encourage unbiased reporting on electoral issues and processes
- In Africa, USAID is especially focused on supporting freedom of the press and combating government corruption by developing regional norms and standards for democratic governance

USAID has a general target for tracking progress in democratic elections, which is that at least 85% of strategic objectives in this area will meet or exceed their targets for the year, with no more than 10% not met and 5% not available.

Nine USAID operating units have strategic objectives with a primary focus on political process. Overall, the percentage of strategic objectives involved in political process objectives meeting their targets increased from 66% in FY 2000 to 78% in FY 2001 (see preceding table); none were considered not met in 2001, an improvement from 2000. USAID made progress towards meeting the 85% target during FY 2002.

Table 3.29
Performance Indicator: Percentage of Programs Meeting Targets

Category	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
Exceeded	30%	0%	0%	85%	85%
Met	50%	66%	78%		
Not Met	20%	17%	0%	10%	10%
Not Available	0%	17%	22%	5%	5%
Number of SOs Reported	10	6	9		

Source: USAID operating units, *Annual Reports*.
Data Quality: Operating units are relied on to produce accurate reports, which are reviewed in Washington.

Strategic objectives that met targets

Accountable and transparent governance in Kosovo

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

Strengthened institutions of democracy in Bangladesh

USAID met its targets for local government reform and human rights advocacy, as well as for parliamentary strengthening, citizens' advocacy, anticorruption, and antitrafficking activities. USAID assisted civil society organizations to increase their capacity to advocate for stronger local government, a more responsive parliament, and improved human rights. Antitrafficking and labor activities that target women and children are beginning to show results.

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

The program to combat trafficking began to show results. USAID supported an NGO that secured the release of 74 women and children and provided information that led to the arrest of 108 traffickers. Ongoing support for anticorruption contributed substantially to the national political dialogue. USAID activities, such as the study of corruption in education, attracted press attention and helped to establish six local civil society watchdog groups. USAID established a center for women in the garment industry and implemented training programs on human rights, health, and

From parent-teacher associations to faith-based groups, civil society has flourished in the United States for centuries. In some developing countries, however, citizens have only recently gained the right to form associations.

labor issues. USAID plans to pursue a basic education program (delayed by September 11) and continue efforts to strengthen local government, citizen participation, and human rights.

Strategic objectives that did not meet targets

All strategic objectives met targets.

DCHA Objective 3: Promote the development of politically active civil society

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

Civil society organizations play two important roles in development. First, they help meet their members' needs—they educate members about new professional practices, share agricultural inputs, or provide health care and other services. Second, civil society organizations are important constituencies for reform, by holding governments and public institutions accountable to citizens.

USAID supports a wide range of civil society organizations, including women's organizations, business and labor federations, environmental groups, and human rights monitoring organizations. In all regions, USAID is promoting the development of politically active civil society through the following approaches:

- Increasing citizen participation in political and social decisionmaking by strengthening venues for public participation such as civil society organizations, labor unions, political parties, and the media
- Strengthening legal systems that promote increased access to justice
- Supporting a responsive, transparent, and accountable governance
- Supporting local governments and decentralizing efforts

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

USAID has a general target for tracking progress in its efforts to support the growth of democratic civil society, which is that at least 85% of strategic objectives in this area will meet or exceed their targets for the year, with no more than 10% not met and 5% not available.

Forty-two USAID operating units have strategic objectives with a primary focus on civil society. Overall, the percentage of strategic objectives involved in civil society programs meeting or exceeding their targets decreased from 74% in FY 2000 to 67% in FY 2001 (see table 3.30).

Strategic objectives that met targets

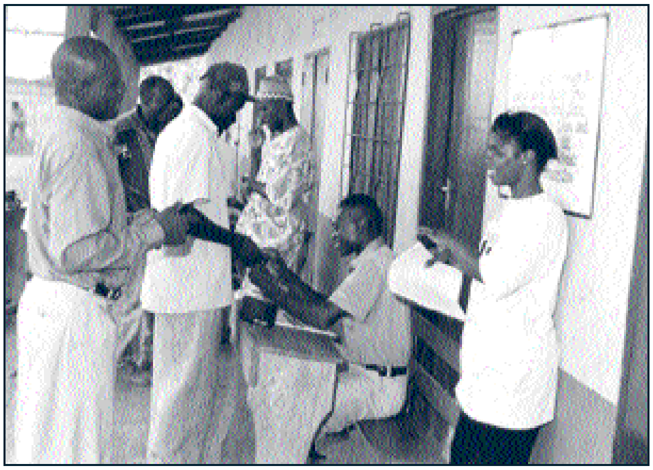
Democratic reforms sustained and deepened in Indonesia

The events of September 11 intensified the dialogue on democracy and the

Table 3.30
Performance Indicator: Percentage of Programs Meeting Targets

Category	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
Exceeded	16%	16%	3%	75%	85%
Met	61%	58%	64%		
Not Met	16%	13%	12%	20%	10%
Not Available	7%	13%	21%	5%	5%
Number of SOs Reported	43	38	42		

Source: USAID operating units, *Annual Reports*.
Data Quality: Operating units are relied on to produce accurate reports, which are reviewed in Washington.



role of religion in Indonesia. USAID secured notable progress and a range of achievements through grants, training, and other capacity-building assistance to nearly 200 nongovernmental organizations (NGOs) involved in transparent and participatory governance, conflict prevention and resolution, religious tolerance, human rights, media support and monitoring, and anticorruption activities.

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

Through its Office of Transition Initiatives (OTI), USAID achieved a notable success with its efforts to support the drafting and passage of the Papua Special Autonomy Bill. It supported the development of the original draft bill and provided a quantitative needs analysis for the Province. USAID's support ensured the passage of the bill. The annual budget allocation for the province from the Indonesian central government was increased by approximately 100% to 7 trillion rupiah (about $700 million).

Improved local and national governance through active citizen participation in Guinea

USAID/Guinea's crosscutting approach emphasizes conflict prevention through good governance, credible political processes, and an active civil society. USAID has achieved notable successes in developing a more politically active civil society that is ensuring transparent budget management and the delivery of public services to local communities. Efforts to open political processes and emphasize dialogue are assisting national actors to bridge the gap between government and governed and are helping to reduce social, ethnic, and political tensions that are potential sources of conflict. The key achievement was a high-level conflict prevention activity that led to unprecedented presidential action taken on identified key sources of conflict. USAID sponsored this high-level activity, grounded in two previous studies on potential sources of conflict, in response to the destabilizing influence of the border war with Liberia and Sierra Leone.

Strategic objectives that did not meet targets

USAID is supporting active involvement by the Government of Morocco and by its civil society in support of citizen rights. The strategic objective met four of its targets in 2001 and failed to meet three. Aspects of the legal literacy training program for women, a complex and collaborative effort, are counted among the key achievements of USAID/Morocco for the year although it was not completed on schedule. The program was finished by March 2002. Similarly, the Code of Ethics project moved more slowly than expected. A ministerial working group, headed by the Prime Minister, developed a draft code and circulated it among ethics experts around the globe, but a final version was not completed because of party politics in the run-up to the elections in September 2002. A third target, the advocacy training of trainers for NGO staff, implemented by a Moroccan NGO, was also delayed because of a change in the coordinator of the project. All of these issues have been alleviated.

DCHA Objective 4: Encourage more transparent and accountable government institutions

Citizens lose confidence in governments that are not accountable and that cannot deliver basic services.

The degree to which a government functions effectively and transparently can determine its ability to sustain democratic reform; therefore, USAID's democracy program focuses on improving government integrity, decentralizing appropriate government functions and decisionmaking, promoting more effective policies, and strengthening legislatures to be more representative and responsive.

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

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

- Strengthened national legislatures and legislative reform
- Decentralization and local government reform
- Improved fiscal policies and fiscal management practices
- Modernized tax service
- Privatization in areas such as land ownership and the energy sector
- Anticorruption efforts and public administration reform programs
- Citizen participation in government
- Crime enforcement reform
- Free access to information

USAID has a general target for tracking progress in strengthening government accountability and good governance, which is that at least 85% of strategic objectives in this area will meet or exceed their targets for the year, with no more than 10% not met and 5% not available.

Thirty-two USAID operating units have strategic objectives with a primary focus on transparent and accountable government. Overall, the percentage of USAID programs involved in governance objectives meeting or exceeding their targets decreased from 81% in FY 2000 to 72% in FY 2001 (see table 3.31). There was the same number of SOs each year, although 12% were not available in FY 2001.

Table 3.31
Performance Indicator: Percentage of Strategic Objectives Meeting Targets

Category	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
Exceeded	17%	28%	13%	75%	85%
Met	64%	53%	59%		
Not Met	8%	19%	16%	20%	10%
Not Available	11%	0%	12%	5%	5%
Number of SOs Reported	36	32	32		

Source: USAID operating units, *Annual Reports*.
Data Quality: Operating units are relied on to produce accurate reports, which are reviewed in Washington.

Strategic objectives that met targets

More democratic processes adopted in key government institutions in Mexico

Responding to opportunities opened up by the 2000 Mexican elections, which marked a new era in Mexican democratic governance after 70 years of one-party rule, USAID's democracy program in Mexico met planned targets in 2001. With a major increase in funding, USAID initiated assistance for anticorruption, public administration reform programs, and citizen participation in all ministries and branches of government. USAID is also working with local government and providing new credit mechanisms to increase private-sector participation in urban infrastructure and municipal service financing.

To improve the rule of law, USAID implemented a new, more sustainable mediation project and new court management and association-building efforts. The first class of 36 judges graduated from the Criminal Justice Master's Program, setting a new standard for continuing judicial education in Mexico. In addition, USAID coordinated the visit of U.S. Supreme Court Chief Justice William Rehnquist and Supreme Court Justice Stephen Breyer to meet with their counterparts on the Mexican Supreme Court, forging more productive working relationships with Mexican justice officials and paving the way for future technical assistance.

USAID also provided training and technical assistance to members of Congress, congressional support staff, and auditors at the federal and state levels. USAID's innovative electoral justice project sponsored local electoral observation and research on postelectoral conflict resolution that contributed to free and fair elections at the state and local levels.

Democratic consolidation advanced in South Africa

Overall, USAID's program to consolidate democracy in South Africa met its performance targets in FY 2001. Citizens of South Africa's historically disadvantaged communities, who under apartheid had no vote and little voice in their governance, are the principal beneficiaries of USAID activities aimed at democratic consolidation. Women and children especially benefit from crime- and violence-prevention activities, which target the reduction of domestic violence, child abuse, and juvenile crime.

USAID helped reduce the criminal case backlog with support for better case-processing systems, the introduction of temporary regional courts and specialized family courts, and technical assistance to 22 sexual offenses courts. Prosecution of high-profile cases, such as corruption and improper conduct in the award of a major arms procurement contract, has helped establish a high government standard for ethics. Other initiatives include the development of guidelines for prosecuting complex organized crime, improvements in the witness protection program, and policies on asset forfeiture and forensic accounting.

USAID local governance activities focused on the fifth and final component of the framework Property Rates Bill, which provides for the financial sustainability of the local government system. For the first time, historically disadvantaged citizens in the former townships and residents of wealthy communities alike will have their values properly assessed. USAID also provided technical assistance to 21 municipalities for raising and managing revenue and improving service delivery, resulting in increases in tax payments. USAID assisted all provinces in completing the process of legally establishing new municipalities so that free and fair local elections could take place as scheduled.

To help civil society, USAID supported a new law that significantly increases tax exemptions for registered civil society organizations (CSOs) and tax deductions for charitable giving. USAID is assisting CSOs to meet the legal requirements to qualify for the tax benefits and become eligible for government grants.

The Office of Transition Initiatives (OTI) program in Peru

In Peru, USAID, through its Office of Transition Initiatives (OTI), was one of the first donors to begin providing institution-building support to the new Congress. More than 70 newly elected Congresspersons, the majority of whom are serving in Congress for the first time, and staffers attended an orientation workshop prior to taking office. USAID funded a diagnostic assessment of Congress undertaken by a highly respected Peruvian NGO, which was well received by the Congressional leadership. USAID also funded the development of educational materials for use by local community leaders in teaching community members about the role and functions of Congress.

Strategic objectives that did not meet targets

USAID's fiscal reform program in Kyrgyzstan aims to strengthen tax and budget policies and administration to help improve the country's overall economic stability and growth. This work is key to Kyrgyzstan's meeting requirements for International Monetary Fund loans. Although revenues did increase significantly for the year, they have not yet fully recovered from the financial crisis of 1998, and tax revenue growth failed to meet original targets, which, in retrospect, were far too ambitious. USAID has helped the Government of Kyrgyzstan develop more realistic revenue projections for the 2002 budget and devise a set of revenue raising proposals aimed at closing the projected fiscal gap. USAID will participate in the meetings that will lead to the negotiation of the next IMF loan to Kyrgyzstan.

DCHA Objective 5: Mitigate conflict

USAID's new Conflict Management Initiative has the following priorities:

1. Supporting the development of more integrated, focused U.S. Government strategies. These strategies will result from conflict-vulnerability analyses and will address prevention, management, and reignition (during postconflict transition) of violent conflict.

2. Expanding democratic governance programs that create institutions at all levels of society as mechanisms to prevent, mitigate, and resolve conflict before it escalates or to reconcile fractured societies in its aftermath. USAID is relying on the

Creating the capability to achieve a sustainable peace in fragile states is not easy. It requires international resolve, multidisciplinary approaches, and a long-term commitment and integrated planning within the U.S. Government and the donor community.

initiatives of U.S. and in-country civil society groups, including those that are faith-based or based at the local grassroots level, to develop local capacities for maintaining peace.

3. Providing the parties to the conflict with more opportunities, methods, and tools to acknowledge and act effectively on their responsibilities to resolve root-cause issues peacefully.

Creating the capability to achieve a sustainable peace in fragile states is not easy. It requires international resolve, multidisciplinary approaches, and a long-term commitment and integrated planning within the U.S. Government and the donor community. USAID has made progress coordinating conflict-related policy with other governments and donors. It will continue to work on coordination and program implementation. USAID implemented grassroots and governance programs to help halt the spread of conflict and terrorism in the Central Asian Republics and the Africa region. Some key approaches included:

- Social and economic reintegration of ex-combatants
- Economic reactivation and development in conflict-ridden areas
- Reconciliation through interfaith and interethnic dialogue
- Grassroots peace-building initiatives by civil society organizations (CSOs)
- Use of participatory and nonviolent mechanisms to solve community conflicts
- Community dialogue on, and cooperation on, issues and projects of common interest
- People-to-people peace agreements
- Conflict early warning systems
- Increased networking between government entities and CSOs

USAID has a general target for mitigating conflict, which is that at least 85% of strategic objectives in this area will meet or exceed their targets for the year, with no more than 10% not met and 5% not available. Baselines will be established in FY 2002.

Because this is a relatively new program emphasis, few operating units have developed and implemented effective strategies. The indicator itself was not tracked before FY 2001, and even then programs were too young—less than a year old—to be held accountable for achieving results.

Strategic objectives that met targets

The Office of Transition Initiatives (OTI) in Nigeria and Indonesia

In Nigeria, OTI successfully supported the establishment of the country's only viable nationwide civil society network devoted to peace building and conflict resolution. The Conflict Resolution Stakeholders Network (CRESNET) is a professional membership association engaged in providing individuals with the skills to mitigate conflicts in their communities. In cooperation with OTI and other organizations, CRESNET members succeeded in conflict resolution by intervening with religious and local government leaders, establishing a peace committee, and facilitating policy dialogue at the local and national level.

In Indonesia, OTI disbursed 261 grants, of which many focused on conflict prevention and resolution training provided by local civil society groups and NGOs. A March 2001 survey found that of the 92% of the participants that took action following training, 81% formed citizen groups that met regularly and 63% initiated open dialogues on solving conflict. Ninety-one percent of the participants also noted that these activities gave

Table 3.32: Performance Indicator: Number of Refugees and Internally Displaced Persons Assisted by USAID's Office of Food for Peace in FY 2000

Other*	11,298,000
Internally Displaced Persons (IDPs)	5,492,000
Refugees	803,000

* Resettled, residents, and others, except IDPs and refugees.

them a deeper understanding of local issues, sources of conflict, and parties involved.

The Transitional Activity Program (TAP) in Indonesia

In Indonesia, the conflict mitigation program met planned targets in 2001, contributing significant results in this area. The P.L. 480, Title II food aid Transitional Activity Program (TAP) has served as an effective entry point for promoting peace-building efforts, especially among Indonesia's urban poor, who are often recruited by extremist groups who use cash payments to entice participation in street protests. U.S. private voluntary organization (PVO) partners report that the TAP combats recruitment for radical purposes by providing job opportunities for the unemployed and fostering morale with communities improved through food-for-work projects. In Central Java, an area prone to sectarian conflict, interfaith committees used joint food-for-work programs to foster community cooperation on projects such as common marketplaces and athletic fields. These projects reinforce community bonds between residents of different faiths, reducing the risk of future conflict.

Regional Economic Development Services Office for East and Southern Africa (REDSO/ESA) conflict mitigation program

The Intergovernmental Authority on Development (IGAD) and the Common Market for Eastern and Southern Africa (COMESA) took important steps to increase collaboration in managing conflict in the region. This led to the approval of a Conflict Early Warning And Response Network (CEWARN) and the development of modalities for peace and security between states, as well as between government and civil society. Both events represent the culmination of several years of systematic REDSO effort. Both frameworks call for enhancement of legal structures and policy processes in the executive branch to address conflict prevention, mitigation, and response, both within a country and with neighbor states. USAID funded consultants and regional workshops to bring together government and nongovernmental stakeholders, ensuring broad input into formulation of the regional frameworks.

Increased networking led to progress in FY 2001. A key aim was to broaden the interaction between representatives of regional intergovernmental institutions, government, and civil society organizations (CSOs). Networking was promoted through a series of meetings and workshops convened by IGAD and COMESA for state actors, civil society organizations, international organizations (including regional intergovernmental organizations), and the private sector. REDSO funded four regional workshops to increase networking. These activities led to the development of more politically active civil society organizations (CSOs) in the region, such as the Africa Peace Forum and the National Council of Churches in Kenya. Approaches applied include promoting problem-solving dialogues, expanding the role of information that includes radio broadcasting and other mechanisms, promoting the role of faith-based organizations, and improving participation in the policy process.

Strategic objectives that did not meet targets

Since these baselines were first established in FY 2002, analysis will be provided in the 2003 Performance and Accountability Report.

DCHA Goal 2: Saving Lives, Reducing Suffering Associated with Natural or Man-Made Disasters, and Re-establishing Conditions Necessary for Political and/or Economic Development

The United States is the world's largest humanitarian donor. American values mandate offering assistance and international leadership to alleviate human suffering from disasters. USAID provides both short- and long-term humanitarian assistance in times of need. It maintains an international reputation to quickly respond to man-made crises and natural disasters, whether with rapid provision of emergency food aid and other relief materials or with innovative and effective medium-term efforts.

Throughout FY 2001, USAID programs responded to the critical needs of people affected by disasters by providing life-saving assistance, including food, water, sanitation, shelter, and medicine. Coordinated by its Office of U.S. Foreign Disaster Assistance (OFDA), USAID deployed quick response teams that included experts from across the Agency who made rapid assessments of urgent needs and provided assistance to victims of humanitarian crises.

USAID used Public Law 480 (P.L. 480), Title II emergency food commodities and International Disaster Assistance funds to provide critical, quick response to disasters. Title II development (nonemergency) food aid is used to address the root causes of food insecurity that contribute to conflict, and to restore stability and livelihoods after conflict, natural disasters and economic crises, particularly where there have been disruptions in markets. Through a focus on sustainable improvements in household food security, Title II development programs helped mitigate the potential impacts of natural and man-made emergencies, by strengthening the resiliency and coping ability of households.

Key humanitarian assistance approaches included:

- Providing immediate relief to victims of natural disasters such as earthquakes, hurricanes, floods, and drought by supplying food, water, health care, sanitation, temporary housing, and related materials
- Helping communities devastated by natural disasters and conflict rebuild by supporting projects in community infrastructure and services, as well as economic and agricultural reactivation, including the provision of employment and skills training
- Responding to the needs of specially disadvantaged groups such as children and orphans, displaced persons, the disabled, and exploited youth by providing basic and vocational education, psychological counseling, and physical rehabilitation, including prosthetics
- Developing local capacities in disaster planning and preparedness, including the development of early warning systems
- Improving the lives of poor and hungry people by supporting integrated food security programs that address the underlying causes of poverty and malnutrition
- Providing diverse kinds of assistance in response to complex emergencies

In addition to responding to emergencies primarily through the Office of U.S. Foreign Disaster Assistance (OFDA) and the Office of Food for Peace, USAID provides transition assistance. These efforts are vital to ensuring that critical needs are met over the intermediate term, that scarce resources are shared equitably and that national reconciliation occurs, and that the instability that typically follows disasters does not lead to reignition of conflict or crisis.

USAID is promoting the transition from relief to sustainable development through the following approaches:

- Promoting citizen security by helping to reintegrate ex-combatants and by assisting internally displaced persons to move beyond subsistence and survival needs
- Building the foundations for democratic political processes by promoting the development of civil society, improving civilian and military relationships, helping marginalized populations participate in political decisionmaking, promoting alternative voices in the media, empowering local efforts for reconciliation, and educating citizens about their human rights

As the number of crises worldwide continues to increase, USAID must be able to move quickly and effectively to meet transition opportunities and challenges. USAID is able to respond quickly to transition opportunities through its Office of Transition Initiatives (OTI), which works closely with local, national, international, and nongovernmental partners. OTI carries out short-term, high-impact projects that increase momentum for peace, reconciliation, and reconstruction. Strategies are tailored to meet the unique needs of each transition situation. With its special programming flexibility, it puts staff on the ground swiftly to identify and act on what are often fleeting opportunities for systemic change. In FY 2001, OTI advanced peace and democracy in eight conflict-prone areas: Colombia, East Timor, Indonesia, Kosovo, Nigeria, Peru, Serbia-Montenegro, and Sierra Leone. Besides OTI's core funding from the Transition Initiatives account ($50 million), USAID contributed additional funds from other accounts, augmenting the budget to $74 million.

DCHA Objective 6: Provide humanitarian relief

USAID works to provide short- and long-term humanitarian assistance in times of need. It seeks to meet the critical needs of people affected by disasters. The Agency uses a 72-hour target to measure its rapid response to disasters. To measure the overall humanitarian community efforts, USAID is currently setting baselines for two benchmark indicators: crude mortality rates and malnutrition in children less than five years of age among affected populations. Rates of mortality and malnutrition decrease when essential needs are met, such as food, water, emergency medical care, and shelter.

USAID adopted mortality and nutrition indicators for the Agency goal in humanitarian assistance in 1999. These indicators are useful for monitoring the extent to which the relief system is meeting the needs of populations in crisis and thus the overall impact of humanitarian assistance. They are appropriate for complex humanitarian crises, because the response is necessarily systemwide in various sectors from the international community.

USAID spearheaded the international community effort to establish broad-based consensus on the importance of these indicators. During the past year, the Department of State, Bureau of Population, Refugees, and Migration (State/PRM) joined this effort, providing critical support in encouraging their use for USG-funded humanitarian assistance. This led to a July 2002 workshop, attended by 45 institutions, to establish a common, standardized methodology for assessing mortality and nutritional status. The workshop concluded (1) that mortality rate and nutritional status are considered to be the most vital, basic public health indicators of the severity of a humanitarian crisis and (2) that timely, reliable, and standardized data, such as these, will facilitate policy decisions and help prioritize resources—by identifying need and determining the severity of crises.

To follow up on workshop recommendations, USAID and its partners established the interagency initiative, Standardized Monitoring and Assessment of Relief and Transitions (SMART). Besides State/PRM and PVO/NGO partners, many organizations are helping USAID to collect and report on shared, standardized measures. They include the World Health Organization (WHO), the United Nations Standing Committee on Nutrition (SCN), the World Food Program (WFP), the United Nations Children's Fund (UNICEF), the Centers for Disease Control and Prevention (CDC), Tulane University, and the Center for Research on the Epidemiology of Diseases (CRED) of the University of Louvain (Brussels).

The Canadian International Development Agency (CIDA) is another major donor adopting these indicators for its reporting on humanitarian assistance. Indicative of the value of this work to the international community, CIDA will provide support to develop a range of tools such as a standardized survey protocol and guidelines, and the pilot testing of methodologies. These are critical to ensure that reliable data will be collected for policy decisions and for monitoring emergency situations.

USAID has a general target for providing humanitarian relief, which is that at least 85% of strategic objectives in this area will meet or exceed their targets for the year, with no more than 10% not met and 5% not available.

Twenty-eight USAID operating units have strategic objectives related to humanitarian assistance. The percentage of strategic objectives meeting or exceeded remained roughly constant, from 80% in FY 2000 to 78% in FY 2001 (see table 3.33).

USAID responded to 79 declared disasters in 56 countries. FY 2001 was a tumultuous year for major natural disasters and complex emergencies. Of these crises, Afghanistan and southern Africa have required significant assistance. In Afghanistan, poverty, famine, a devastating drought, and years of war and civil strife have created a humanitarian crisis. It was the number one recipient of U.S. humanitarian assistance before September 11, 2001. The United States led the international community in providing assistance with $580 million to help the Afghans. USAID managed more than $350 million of this assistance. USAID responded to the humanitarian crisis by providing food, emergency supplies, health care, communications, and transport. It provided more than 319,000 metric tons of food aid to 9 million people and helped to avert famine last year. It provided more than $34 million for emergency shelter and survival kits. It also provided essential medical supplies, as well as funds for health centers and mobile clinics, and contributed more than $23 million to improve the health and nutritional status of Afghans. USAID continues to lead the effort in the rehabilitation and reconstruction of Afghanistan.

Table 3.33
Performance Indicator: Percentage of Strategic Objectives Meeting Targets

Category	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
Exceeded	16%	7%	14%	85%	85%
Met	74%	73%	64%		
Not Met	0%	7%	4%	10%	10%
Not Available	10%	13%	18%	5%	5%
Number of SOs Reported	30	30	28		

Source: USAID operating units, *Annual Reports*.
Data Quality: Operating units are relied on to produce accurate reports, which are reviewed in Washington.

The food crisis in southern Africa is severe, affecting an estimated 14.4 million people in six southern African countries—Lesotho, Malawi, Mozambique, Swaziland, Zambia, and Zimbabwe. USAID has monitored the food shortage in southern Africa since December 2001 and began providing food to the region in February 2002. The United States has delivered or pledged more than 499,000 metric tons of food aid since the beginning of 2002. At a total value of more than $266 million, the U.S. Government is the largest donor to the World Food Program's operations in southern Africa. USAID has also provided more than $10 million in nonfood programs under way in Zimbabwe, Malawi, Zambia, and Lesotho. The United States has taken other actions as well to help slow the worsening situation in southern Africa, including stimulating commercial imports and engaging governments to take appropriate policy actions.

Table 3.34: Performance Indicator: Number of People Receiving Humanitarian Assistance from USAID[34]

Office of U.S. Foreign Disaster Assistance (OFDA)	23,700,000*
Office of Food for Peace (FFP)	29,891,000**

* Number of affected monitored by OFDA. The database for monitoring the number of people receiving assistance is being established.

** The number of people receiving assistance is from the Office of Food for Peace database that has compiled information from World Food Program and PVO/NGO recipients of Title II emergency resources for FY 2001.

USAID also provided continued assistance to protracted complex emergencies, such as Sudan. For the past 18 years, Sudan has been embroiled in a complicated civil war. Since 1989, USAID provided more than $1 billion in humanitarian assistance to Sudan. Beginning in 1998, development assistance has been provided to southern Sudan. On May 3, 2001, President Bush appointed the USAID Administrator, Andrew Natsios, as the U.S. Special Humanitarian Coordinator for Sudan. In July, the Administrator led a high-level USG delegation to both North and South Sudan, where he envisioned a reinvigorated commitment to Sudan.

Table 3.35: Performance Indicator: Number of Declared Emergencies Responded to in a Timely Manner

Office of U.S. Foreign Disaster Assistance	79*

* Of a total of 79 declared emergencies. "Timely" is defined as within 72 hours of a declared disaster.

The Administrator was able to expand the "humanitarian space" in the long isolated and devastated Nuba Mountains of central Sudan, an action that became a platform for expanded U.S. diplomacy toward a just and lasting peace in Sudan.

In Ethiopia and Eritrea, 5 million people are currently vulnerable to food shortages brought on by a severe drought. Under the worst-case scenario, the drought could cause food shortages for 15.1 million people. USAID has been monitoring the situation through its Famine Early Warning System Network and recognized the problem developing early on. As a result, the United States has already taken aggressive action in getting food to those who need it. Since July 2002, the U.S. Government has provided $106 million in assistance to Ethiopia, including more than 278,000 metric tons of food. USAID is working with the World Food Program and other organizations to help deliver food. The United States will continue to provide food and other assistance as necessary to avoid crises in these countries. In addition, USAID is working with the governments to address longer-term structural problems through health, agriculture, education, and natural resource management programs.

While leading the international response to food shortages in several countries, USAID sought to increase awareness on the genesis of famines, how people cope with them, and how they are preventable. It prepared a background paper on famine for the World Food Summit: Five Years Later (June 2002), which reviewed progress made in achieving the 1996 World Food Summit goal of halving the number of malnourished by 2015. While progress has been made, more

[34] Many individuals received assistance from both OFDA and FFP, so these figures may represent double-counting in some situations.

needs to be done. USAID outlined its policies and programs to prevent famine. These include enhancing early warning systems such as the Famine Early Warning System (FEWSNET) and the Livestock Early Warning System (LEWS), supporting regional assessments to determine household asset and entitlement systems, promoting public health and reducing malnutrition, improving agricultural livelihoods, and creating enabling markets.

Strategic objectives that met targets

Critical needs met of targeted vulnerable groups in emergency situations: Office of U.S. Foreign Disaster Assistance (OFDA)

In accordance with its mandate of saving lives and alleviating human suffering, the Office of U.S. Foreign Disaster Assistance (OFDA) responded to all declared disasters by providing emergency commodities and services. In FY 2001, OFDA obligated $227 million for emergency response, mitigation, and preparedness. It responded to 79 declared disasters in 56 countries, including 54 natural disasters, 16 complex emergencies, and 9 human-caused emergencies. Droughts and floods made up the largest number of natural disasters, impacting nearly one of every two countries in which OFDA responded to a disaster declaration and accounting for 85% of the total number of people affected by declared natural disasters of all types. OFDA responded to several significant disasters, including major earthquakes in India and El Salvador, a destructive hurricane in Central America, the continued protracted civil war in Sudan, and the overwhelming crisis in Afghanistan.

Assistance was directed primarily to severely and moderately malnourished children, nursing and pregnant women, the elderly, and other vulnerable groups. In addition to providing emergency relief commodities and services, OFDA provided assistance for emergency preparedness and disaster mitigation capacity building at the community, national, and regional levels. The need for international emergency assistance when disaster strikes is directly related to the limited capacity of many disaster-prone countries to respond to large-scale emergency events on their own.

Critical food needs of targeted groups met: Office of Food for Peace

The Office of Food for Peace provides Public Law 480, Title II food commodities to people who are food-insecure and nutritionally vulnerable because of conflict or natural disasters. In FY 2001, USAID provided 697,960 metric tons of Title II emergency food aid, valued at $406,051,900. These resources met the critical food needs of 29,890,551 people in 23 countries. USAID reached 90.7% of its overall planned beneficiary level, with beneficiary levels assessed and established at the outset of the program by implementing partners and international agencies. The 90.7% result surpassed the FY 2001 target of reaching 85% of the beneficiary level.

Title II emergency food aid beneficiaries include refugees, internally displaced persons (IDPs), and people who are malnourished or at risk of becoming malnourished, particularly children under age five, pregnant and lactating mothers, and the elderly. IDPs (5,491,647) far outnumbered refugees (802,570), posing operational challenges such as accessing IDPs in countries where infrastructure has collapsed or access is limited by insecurity. Africa continues to be the source—as well as the host—to the largest number of refugees and IDPs. The Africa region continued to be the largest recipient (more than 75%) of Title II emergency resources in FY 2001, with 519,690 metric tons totaling more than $307 million. In monitoring results of Title II emergency food aid programs, reporting on the nutritional status of beneficiaries has incrementally increased from the baseline of 37% (1996) to 73% (2001). Title II implementing partners have been encouraged to collect and analyze nutrition data with mortality data to improve assessments of needs and direct the right kind of interventions.

Title II development programs increase resiliency to natural disasters. For example, in Mozambique, by the end of a five-year Title II agriculture and nutrition program, farmers increased the number of months of food staples (obtained from their own production) from 1 to 10 months. Another long-term measure of the program is an average decrease in chronic malnutrition (stunting) of 21 percentage points among children under two years of age. Another five-year program on agriculture, rural roads, and nutrition documented a number of important achievements for the 5,000 farmer beneficiary families. Proxy measures of household income showed increases of 80%, and participant farmers' yields were 52% higher than those of nonparticipant farmers. Estimated household reserves of cassava increased by 32%, and reserves of maize increased by 100%. In Kenya, USAID has supported an integrated agriculture, health, and nutrition program since 1999 in the Marsabit district. Famine relief, including supplementary feeding and improved nutritional practices, reduced malnutrition rates. At the same time that relief aid was provided, programs also encouraged farmers to adopt dry-land farming techniques and technologies such as drought-tolerant crops (sorghum, cowpea) to reduce the risk of crop failure in the future. Sixty-six percent of farmers are now growing drought-resistant crops alongside the traditional maize and beans.

Mitigate the effects of disaster in Ethiopia

This program illustrates the use of several funding sources (Child Survival and Diseases, Development Assistance, International Disaster Assistance, Title II) to address and mitigate the effects of disasters. The program seeks to improve early warning and emergency response capacity at federal and regional levels, decrease vulnerability, and improve the nutritional status of children and at-risk persons. It also seeks to restore socioeconomic institutions in the Ethiopian-Eritrean border region, minimizing the potential for further conflict. In FY 2001, USAID provided 70% of total food requirements and met the critical needs of 6.2 million drought-affected persons. Without USAID assistance, several hundred thousand lives would have been lost in the Somali region and several million more people would have depleted productive assets and become destitute. Beneficiaries of Title II emergency and development food programs included 736,000 persons in 22 food-insecure zones in nine regions. Among 78,100 rural households studied, the eight Title II implementing partners reduced stunting from 61% in FY 1997 to 39.5% in FY 2001, an impressive result when compared with the 2000 DHS national rate of 52%. Programs also decreased the number of months when households do not have sufficient food to eat from 5.6 months (FY 1997) to 4.7 months (FY 2001). Implementing partners exceeded all other program targets, except for one: the immunization result of 53.3% did not meet the target of 60%, but still represents a major gain against the FY 1996 baseline of 26.6%. Title II development activities are integrated with USAID's programs in health, education, and agriculture. To complement Title II food aid, OFDA provided more than $3 million in nonfood assistance for activities in health, nutrition, potable water, sanitation, animal health, and early warning. As part of assistance along the northern border with Eritrea, USAID helped 280,000 IDPs to return to their homes and to resume productive lives. The program also provided food aid to 144,800 refugees through the WFP.

Provide economic and social opportunities for vulnerable groups, particularly internally displaced persons in Colombia

In addition to providing emergency assistance to meet critical needs, USAID helps displaced persons gain access to basic services after emergency relief has expired. Through governmental, nongovernmental, and international public organizations, USAID assists people displaced from their homes integrate into the economic, social, and political life of their new community. In Colombia, the number of actual beneficiaries totaled 276,981, surpassing the planned target of 100,000 beneficiaries. Assistance included the provision of housing and improved access to health and education, psychosocial assistance, and teacher training. To increase economic opportunities for internally IDPs, USAID funded return-to-farm programs, farm and microcredit for cottage industries and small businesses, and training on income generation and the strengthening of business cooperatives. To broaden political participation, USAID supported activities to integrate IDPs into communities, protect their rights, and incorporate IDP issues in municipal and departmental social and economic development plans. The program also included the reintegration of former child combatants into society through psychosocial and legal assistance, social rehabilitation, educational programs, and vocational training.

The Hurricane Georges recovery and reconstruction in the Dominican Republic

The Hurricane Georges Recovery and Reconstruction strategic objective in

The Global Development Alliance (GDA) approach responds to this changed environment and extends USAID's reach and effectiveness in meeting development objectives by combining its strengths with the resources and capabilities of other prominent actors.

the Dominican Republic exceeded expectations, assisting more than a million hurricane victims through an expanding effort that progressed from relief through reconstruction.

USAID surpassed its health risk mitigation target by providing 118,000 people with access to potable water systems, 77,500 people with access to sanitation, and 178,700 people with primary health care services. These surpassed targets by 109%, 105%, and 101%, respectively. USAID repaired and constructed 7,486 homes through a U.S. NGO that subgranted to Dominican NGOs. A total of 1,029 housing units were completed. USAID's combined total of in-situ units and new housing units represents 99.9% of the 2,250 target. Agricultural rehabilitation assistance provided to 471 small farmers surpassed the 2001 target. By the end of the project, 12,405 farmers received assistance, with emphasis on cash crops.

USAID collaborated with the National Rural Electric Cooperative Association, which partnered with the Dominican Government and private-sector companies to restore a more disaster-resistant electricity service to more than 14,472 beneficiaries (81% over the 2001 target). In addition, smaller renewable energy systems were installed at 10 sites in isolated off-grid communities. Through a local university, USAID trained and assisted 3,560 microentrepreneurs (138% over target).

Disaster mitigation activities benefiting small farmers exceeded expectations. USAID funded NGO programs to stabilize and reduce soil erosion on 6,300 hectares of land through conservation measures. By project end, 7,959 hectares of land were treated with improved soil conservation practices (27% over target).

Other achievements included formation of a rural water federation, policy reform for low-income housing loans, construction of mitigation and evacuation infrastructure in several densely populated urban communities in Santo Domingo; and disaster preparedness training for 2,400 leaders from 82 communities and 69 villages. The program also launched a host of innovative initiatives that will continue into the future, including the introduction of integrated management of childhood illnesses, improved construction technology for hurricane-resistant housing, and the first inspection program for structural integrity of public emergency buildings.

Strategic objectives that did not meet targets

All strategic objectives met targets.

GLOBAL DEVELOPMENT ALLIANCE (GDA) PILLAR

Today's global development challenges are more complex, are not easily defined, and lack readily apparent solutions. In addition, other actors have come to play greater roles in international development: corporations, foundations, nonprofits, academic institutions, and others are actively seeking ways to manage development challenges.

The Global Development Alliance (GDA) approach responds to this changed environment and extends USAID's reach and effectiveness in meeting development objectives by combining its strengths with the resources and capabilities of other prominent actors.

Through the GDA, USAID fulfills its development mandate through an innovative approach that:

- Responds to a new global environment and new challenges
- Extends USAID's reach and effectiveness in meeting its development objectives
- Leverages additional resources for development impact
- Fosters increased cooperation between USAID and traditional and new partners and promotes the sharing of resources and responsibility to achieve greater impact than any single organization could accomplish on its own.

Within the GDA Secretariat, alliances are being made with a variety of partners in areas such as education, vocational training for youth, information technology, forest certification, sustainable tree crops, water, and small-enterprise development. With support from the Secretariat, USAID missions and central bureaus are working toward an estimated 70 new alliances this year. Wherever USAID pursues a sustainable development agenda, there is increased reliance on the use of alliances in all sectors and regions.

GDA Agency Objective

- Number, type, and value of public-private alliances established each year; extent of non-Federal resource leveraging; range of partners

GDA is a crosscutting pillar that focuses attention on the use of public-private alliances as a means of achieving a far greater development impact. The Secretariat has gathered Agencywide preliminary data in FY 2002, using information contained in Annual Reports from operating units in the field and in USAID/W. Reporting in this initial year is inconsistent and incomplete; future reporting will improve, based on new guidance issued. For example, the data in the Reported Leveraged Resources column is underestimated because it excludes USAID/W-based alliances.

The GDA Secretariat managed a small incentive fund beginning in FY 2002; actual performance data will be included in the FY 2003 APR.

The GDA Secretariat was intended to be a relatively short-lived organization that would establish new development modalities, which would then be picked up through regular Agency program funds. As noted above, even within the first year of the GDA, bureaus and missions established more than 70 GDA alliances, suggesting that the shifting of funds from designated GDA accounts to program accounts has already occurred.

Management

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

USAID operations depend upon sound management systems, including procurement and financial management, personnel, and logistics and administrative support, all of which require worldwide information and communications systems. In pursuing the management goal to "Achieve USAID Goals in the Most Efficient and Effective Manner," USAID is improving these key management systems in careful alignment with the President's Management Agenda (PMA). At the forefront of this Agenda are five governmentwide initiatives designed to improve U.S. Government performance:

- Strategic Management of Human Capital
- Competitive Sourcing
- Improved Financial Performance
- Expanded Electronic Government
- Budget and Performance Integration

In FY 2002, USAID aggressively pursued the following priorities linked to the PMA:

- **Financial Management:** Installation of a worldwide financial management system that meets Federal accounting standards and provides the breadth of cost information to enable effective management of USAID programs worldwide
- **Human Capital Management:** Development of enhanced workforce planning, recruitment, and training efforts to improve the effectiveness of Agency staff and to address the decline in the number of personnel with critical expertise needed to fill overseas posts
- **Procurement:** Improvement in USAID's ability to procure and deliver services worldwide in a more timely manner

Table 3.36
GDA FY 2002 Preliminary Data

USAID Region	Number of *Annual Reports* Reviewed	Number of *Annual Reports* with Alliance Data	Reported Leveraged Resources (in millions)
Africa	30	17	$211.4
Asia & Near East	14	11	$27.3
Latin America & Caribbean	19	8	$73.0
Europe & Eurasia	20	12	$61.4
Total	83	48	$373.1

Note: Pillar bureaus reported 23 alliances; resource-leveraging data are unavailable. All data are preliminary, subject to verification.

- **Information Technology:** Development and installation of secure information and knowledge management capability for USAID's worldwide operations

- **Logistical and Administrative Services:** Improvements in the logistical and administrative services that support Agency operations in Washington and field missions

Highlights of Results in FY 2002

Detailed information on USAID management goal results, including discussion of performance targets, is provided in the Management Discussion and Analysis section. The following discussion summarizes USAID management achievements in terms of the President's Management Agenda (PMA).

The Office of Management and Budget has developed PMA standards for success and a traffic light scoring system to track implementation of the five initiatives. This scorecard assesses overall status, as well as annual progress against the standards. A green light indicates that an agency meets all standards; yellow signifies partial achievement of the standards; and red reflects serious flaws. While USAID's overall status in FY 2002 was assessed as red in all five areas, the Agency received green or yellow progress scores in four of the five initiative areas as described below:

- **Strategic Management of Human Capital:** USAID's reduction in force in the mid-1990s and high ongoing attrition have left the Agency with current and future skill gaps. Analyses of USAID's workforce demographics have underscored the imperative to replace an aging workforce. While staff recruitment is a U.S. Governmentwide challenge, USAID faces particular difficulties, given the need for diffuse sectoral skills—from health to agronomy and from judicial reform to education—and the long lead time required for security and medical clearances. To address these human capital challenges and reposition staff where they are most needed in the field, USAID completed an Agencywide reorganization and a Human Capital Strategic and Action Plan. As a result of these efforts, USAID received a **green progress rating** for FY 2002. The Agency will work to improve its overall status rating for strategic management of human capital through full implementation of the Human Capital Strategic and Action Plan. In FY 2003, the Agency plans to finalize recruitment strategies covering all direct-hire positions, reform the appraisal process, better link awards to performance, and complete an assessment of both direct-hire and non-direct-hire overseas staffing.

- **Competitive Sourcing:** USAID has not made progress in this area. Although USAID has identified approximately 30% of staff positions [599 full-time equivalents (FTEs)] as potentially commercial, the Agency has not completed public-private competitions nor direct conversions. During FY 2002, USAID submitted a draft competitive sourcing management plan that failed to meet PMA targets, resulting in a **red progress rating.** In FY 2003, USAID plans to increase training for procurement staff in order to build the capacity for competitive sourcing. In addition, the agency will work with OMB to develop a competitive sourcing plan to implement this initiative.

- **Improved Financial Performance:** USAID continues to strive for an unqualified audit opinion on its annual financial statements. At present, while all USAID managed funds are recorded in the general ledgers of the core accounting system, nearly 50% of the funds are controlled in overseas missions not in the core accounting system because the core system is not yet deployed world-wide. For FY 2002, USAID received a **yellow progress rating** on financial performance, because planning documents for the field rollout of the core accounting system were completed too late for evaluation on this year's scorecard. USAID will proceed with the development and piloting of an overseas financial management system in FY 2003. However, the Agency's overall status rating will not improve until late FY 2004/2005, the target date for full overseas deployment of the financial management system.

- **Expanded Electronic Government (e-gov):** In FY2002 USAID made significant progress in e-Gov. Partnering with OPM on the e-Learning initiative, USAID helped produce a government-wide one-stop portal for web-based distance-learning (www.golearn.gov), and through a subscription agreement is providing e-Learning opportunities to its staff in place of a capital investment. The Agency partnered on the e-Travel initiative to identify and begin deployment of a government-wide travel reservation self-booking tool (FedTrip). It also continued its partnership with the e-Payroll initiative, having already out-source payroll processing to the USDA National Finance Center (NFC). Monitoring the other initiatives for opportunities to contribute, USAID participated in the Integrated Acquisition, e-Clearance, e-Grants, e-Records, e-Recruitment and International Trade Process Streamlining initiatives.

Progress was also made in the implementation of the Government Paperwork Elimination Act (GPEA). For example, USAID advertised 100% of its solicitations in excess of $25,000 via FedBizOps. It significantly upgraded its world-class participant training tracking system (TraiNet). An Agency-wide web-based system was put in place to improve financial reporting (Crystal Enterprise). Integrating with the existing position-description and classification subscription service obtained through the GSA, USAID added a web-based personnel advertisement and recruitment service (Avue) that is seamlessly accessed by potential applicants through OPM's USA Jobs (www.usajobs.opm.gov), the Agency's own homepage (www.usaid.gov/about/employment/) or other Federal job posting sites (e.g., www.avuecentral.com), all without a capital investment outlay, and which has enabled USAID to expedite the reorganization of its headquarters and to accelerate closing Human Capital skill gaps through effective recruitment. A new correspondence tracking system, based on the Documentum records management tool, was completed. And, USAID served as a test-bed for the government-wide electronic forms initiative (www.FedForms.gov), successfully implementing new techniques and technologies ahead of schedule at nominal cost.

Nonetheless, USAID received a **yellow progress rating** because IT investment Business Cases, the Capital Planning & Investment Control (CPIC) process, and other documentation were submitted too late to be evaluated for the scorecard ending September 30, 2002. The Agency expects an improved status rating after submitting updated documentation, expanding its e-Gov partnerships, and gaining OMB approval of at least 50% of its major IT investment Business Cases.

- **Budget and Performance Integration:** Although USAID planning, evaluation, and budget staff work closely together, the Agency has not yet transitioned to strategic budgeting. In addition, USAID's performance management system relies on monitoring operating unit strategic objectives that vary by country context, which inhibits comparisons across programs worldwide. Also, because USAID programs in a given country are only one factor among many drivers of development progress, attribution for USAID-funded results is difficult. However, the Agency has made progress in developing a new strategic budgeting model and received a **green progress rating** in FY 2002. During the past year, USAID: (1) completed the first stage of a study of Operating Expense (OE) to provide a model for proactive planning and presented a plan for improved cost accounting practices; (2) developed a model to evaluate budget allocations against ideal "shadow" allocations, based on objective criteria; and (3) developed a comprehensive plan outlining how budget and performance integration challenges are being addressed, with a timeline of expected accomplishments. In FY 2003, continued improvements in USAID's performance management procedures, accelerated use of strategic budgeting, and the development of a joint State-USAID strategic plan with meaningful goals and measures that can facilitate cross-program comparisons and resource allocations are expected to lead to an improved status rating.

Table 3.37
Management Goal: Achieve USAID's Goals Efficiently and Effectively
FY 2002 Performance Data

Performance Goals & Indicators	FY 2002 Target	Assessment	Notes	Linkage to President's Management Agenda
Objective #1: Accurate program performance and financial information available to Agency decisions				
1.1.1: Integrated, automated financial systems worldwide	Establish a firm date for accelerated deployment of the core accounting system.	Target Met	The financial system, Phoenix, will be piloted in USAID overseas missions in FY 2003, with full deployment scheduled in FY 2004 and 2006.	Improved financial performance
	Put in place a core financial system that supports overseas mission financial reporting at the strategic objective level in accordance with the Agency's accounting classification structure.	Target Met	The MACS Auxiliary Ledger is the mechanism through which the core financial system will support mission financial reporting at the SO level.	Improved financial performance
1.1.2: A fully operational, secure and compliant core financial system installed with interfaces to major feeder systems	1. Complete mission accounting system security certifications for at least 50% of the overseas accounting stations.	Target Not Met	Target was deferred because of consideration of accelerating the deployment of Phoenix	Improved financial performance
	2. Implement electronic interfaces and data repositories for significant feeder systems.	Target Met	Automated interfaces to the Acquisition and Assistance (A&A) system, U.S. Treasury disbursement system, and the overseas accounting systems (MACS) were completed.	Improved financial performance
	3. Implement USAID-based reporting tools to support enhanced financial reporting for decision-making and resource management.	Target Met	Web-based reporting tools to support enhanced financial reporting for decision-making and resource management were implemented	Improved financial performance
	4. Select priority enhancements to core financial system implemented (e.g., USAID-based vendor query and electronic invoicing capabilities, USAID-based core financial system upgrade, and Agency reorganization).	Target Partially Met	USAID began implementing the invoicing document in Momentum for routing and approval of vendor invoices, but full electronic invoicing and web vendor capability will not be available until Momentum Release 5.0 is implemented	Improved financial performance
1.2.1: Administrative costs allocated to strategic objectives	5. Develop a cost accounting system capable of allocating the full costs of Washington programs and operations to Agency goals.	Target Met	USAID created a cost allocation model at headquarters that currently allocates indirect costs recorded in the Management Bureau to benefiting bureaus. Using off-line cost allocation techniques, these costs are then allocated to SOs, which are then linked to Agency goals.	Budget and performance integration

Performance Goals & Indicator	FY 2002 Target	Assessment	Notes	Linkage to President's Management Agenda
Objective #2: USAID Staff skills, Agency goals, core values and organizational structures better aligned to achieve results efficiently				
2.1.1: Recruitment efforts result in rapid deployment of staff in all labor categories and services	1. Meet all FS and CS staffing requirements, i.e., the Agency completes the fiscal year no more than 40 below on-board funded target (no less than 1,972) for FY 2002.	Target Exceeded	Because of recruitment efforts that resulted in rapid deployment of staff in direct hire labor categories and services, USAID exceeded this target, ending the FY with 1,996 employees.	Strategic Management of Human Capital
	2. Finalize workforce restructuring plan and develop performance indicators to evaluate recruitment and efforts to rationalize staff allocations.	Target Partially Met	USAID finalized ten workforce restructuring plans and developed performance indicators to evaluate recruitment and efforts to rationalize staff allocations. Only one plan remained pending by September 30, 2002.	Strategic Management of Human Capital
2.1.2: In-house training on critical operational skills continued	3. Train a total of 2,200 employees in leadership, operations, financial management, and managing for results.	Target Partially Met	The Agency fell short of its target by 70, due in part to the prohibition on international travel after September 11, 2001.	Strategic Management of Human Capital
Objective #3 – Agency goals and objectives served by well-planned and -managed acquisitions and assistance				
3.1.1: Increased use of performance-based contracts	1. Integrate A&A planning with program development through increased use of performance-based contracting (20% of all contracts valued at more than $25,000).	Can not Determine	Information available indicates USAID met the target but this information is based on contracting officer's interpretation only.	Competitive Sourcing
3.1.2: Use of new Governmentwide advertising system – FedBizOpps	2. Integrate A&A planning with program development through increased use of new governmentwide advertising system (FedBizOpps) by 95% of solicitations valued at more than $25,000.	Target Exceeded	As a result of staff training and controlled submissions of notices, USAID advertised 100% of USAID solicitations in excess of $25,000 via FedBizOpps in FY 2002.	Expanded electronic government (e-Gov)
3.2.1: Percentage of Cognizant Technical Officers (CTOs) and Contract Officers (COs) certified	3. Strengthen A&A competencies of technical and contract staff by finalizing certification standards for Cognizant Technical Officers (CTOs).	Target Met	USAID designed and began testing a new online CTO certification course that offers a more cost-effective training method and allows USAID to reach a larger audience.	Strategic management of human capital
	4. Strengthen A&A competencies of technical and contract staff by certifying 87% of Contracting Officers (COs) with procurement authority of $2.5 million or more.	Target Not Met	74% of USAID's COs were certified. Agency fell short of target because of restrictions on all nonessential travel from September 21, 2001, through December 11, 2001, and cancellation of all overseas procurement courses during that period.	Strategic management of human capital

Part 3: Program Performance

Performance Goals & Indicator	FY 2002 Target	Assessment	Notes	Linkage to President's Management Agenda
3.3.1: Contract administrative simplified	1. Improve USAID-implementers partnership by simplifying contract administration though an established policy for the delegation of CO authorities to CTOs.	Target Met	USAID established a new policy to delegate certain grant administration functions to the technical offices that currently require signatures by either the Contracting or Assistance Officers, such as approval of restricted commodities (e.g. motor vehicles). Steps for implementing such policies are under way	Budget and performance integration
3.4.1: Uniform implementation of contracting policies	2. Improve consistency in application of A&A policies and procedures through uniform implementation of contracting policies by establishing baseline and targets.	Target Not Met	Rather than focusing on establishing a baseline and targets, USAID decided to refocus its efforts on making the Contract Review Board's (CRB) review of contracts more than $10 million fully operational. By the end of FY 2002, the CRB was fully operational in USAID/Washington.	N/A
Objective #4: Agency goals and objectives supported by better information management and technology				
4.1: Enhanced compliance with Federal requirements and regulations	1. Complete a study and develop a plan to reengineer Agency business practices to accelerate deployment of improved Agencywide systems;	Target Met	Under the auspices of the transformation initiative, a concept of operations study was conducted to examine alternatives for an overseas deployment of an accounting system. The study concluded that mission operations be integrated with the headquarters systems and that some financial transactions currently processed at the missions could be processed at regional centers.	Improved financial performance
	2. Upgrade forty-one overseas missions with new network operating system; and	Target Exceeded	Forty-seven missions were upgraded with Windows (2000), a new network operating system, and a with the new e-mail system	Expanded electronic government
	3. Rank security investments and execute actions to reduce risks in general control environment.	Target Met	The Agency conducted a high level vulnerability assessment; prioritized, funded, and scheduled corrective actions; and created a Plan of Action and Milestones (POA&M) to track the actions.	Expanded electronic government

Appendix 1 Management Challenges

INFORMATION MEMORANDUM

TO: A/AID, Andrew S. Natsios

FROM: IG, Everett L. Mosley

SUBJECT: USAID's Most Serious Management Challenges

SUMMARY

Attached is my Office's statement of the most serious challenges facing USAID management for inclusion in USAID's FY 2002 Performance and Accountability Report.

DISCUSSION

The Report Consolidation Act of 2000 (Public Law 106-531) states that an agency Accountability Report

> . . . shall include a statement prepared by the agency's inspector general that summarizes what the inspector general considers to be the most serious management and performance challenges facing the agency and briefly assesses the agency's progress in addressing those challenges.

The attached document provides our statement concerning USAID's most serious management and performance challenges for inclusion in USAID's FY 2002 Performance and Accountability Report.

If you have any questions or wish to discuss this document, I would be happy to meet with you.

Attachment:

USAID Office of Inspector General Statement Concerning USAID's Most Serious Management and Performance Challenges

USAID OFFICE OF INSPECTOR GENERAL STATEMENT CONCERNING USAID'S MOST SERIOUS MANAGEMENT AND PERFORMANCE CHALLENGES

This document presents the Office of Inspector General's assessment of the most serious challenges facing USAID management at the close of the FY 2002.

In pursuit of its mission, USAID faces a number of serious challenges. We have identified twelve management and performance challenges in five areas (Financial Management, Information Resource Management, Managing for Results, Procurement Management, and Human Capital Management). This statement describes USAID's continuing efforts to address its major management and performance challenges and OIG efforts to assist in overcoming these challenges.

Financial Management

The OIG was able to issue opinions on USAID's five principal financial statements. The OIG issued unqualified opinions on the Balance Sheet, Statement of Changes in Net Position, Statement of Budgetary Resources, Statement of Financing and a qualified opinion on the Statement of Net Cost. This is an important milestone and represents significant progress by USAID.

However, while USAID has made progress over the last four years; a number of areas in financial management system continue to present challenges. Because USAID does not have an integrated financial management system, the consolidated financial statements were prepared only through extensive efforts on the part of USAID. In addition, because of the increased audit risk associated with USAID's non-integrated financial management system, the OIG had to undertake extensive efforts to complete the audit.

Although there were improvements in the information on USAID's five principal financial statements, USAID's system was not able to provide information needed for decisionmaking to USAID managers throughout FY 2002. Within Financial Management, the OIG identified seven challenges in need of attention. These weaknesses are presented below.

Allocating Program Expenses On Its Statement of Net Cost Needs Improvements - The OIG reported that USAID had not developed a process to consistently allocate program expenses to agency goals when USAID financed grants are associated with more than one agency goal. For the first four months of FY 2002, the expenses associated with grants funded under letters of credit were recorded using a manual process. Under the manual process, USAID recorded the expenses against the oldest available funds. In February 2002, USAID implemented an automated interface with the Department of Health and Human Service, the federal agency that managed USAID's letter of credit process. Under the new automated interface, a different cost allocation method was used. This inconsistency in allocation methods created the internal control weakness.

Calculating Credit Program Allowances Needs Improving – The OIG reported that USAID's process for calculating its credit program allowance needs improvement. During our fiscal year (FY) 2002 GMRA audit, we compared the current year calculated allowances with the allowances calculated in the prior year. The OIG identified a significant increase in the FY 2002 allowance amounts from what was calculated in FY 2001. Recognizing that USAID changed their methodology for calculating the credit program allowance in FY 2002 (both methodologies are acceptable), we requested that USAID recalculate the allowance for FY 2001 and provide additional disclosure in the FY 2002 financial statements. When USAID recalculated the FY 2001 allowance, an error in the calculation was discovered in the FY 2002 calculation. Because USAID had not implemented a second party review for the credit program activities, this error was not detected until the OIG requested the recalculation. USAID corrected the error and adjusted the FY 2002 financial statements.

Reconciling Its Fund Balance with the U.S. Treasury Needs Improvements - The OIG determined that USAID has not implemented effective internal controls to ensure that its fund balance with Treasury was reconciled in a timely manner. The OIG identified several problems that continue to hinder USAID's ability to reconcile differences with its fund balance account. Specifically, USAID's Office of Financial Management and the overseas missions did not consistently reconcile—research and resolve—differences identified between USAID's records and the records of the State Department's U.S. Disbursement Office and the U.S. Treasury in FY 2002. Consequently, USAID's Office of Financial Management made net unsupported adjustments of about $45 million ($203 million in absolute dollar value). According to USAID, this adjustment was made because it was necessary to bring its fund balance in agreement with the U.S. Treasury for the yearend closing reports and the annual financial statement.

Calculating Accounts Payable - Although progress has been made in this area, the OIG determined that a significant portion of the accounts payable were unsupported by financial documentation. The unsupported amounts were those processed via USAID's Accrual Reporting System (ARS) that is used by USAID/Washington and via Mission Accounting and Control System (MACS) used by USAID missions. In our FY 2001 GMRA audit, this internal control deficiency was identified only at USAID missions. The OIG determined that this occurred because USAID program managers have not developed an effective process for estimating accounts payable. Consequently, USAID's FY 2002 expenses were overstated by about $236 million

($52 million from its missions and $184 million for Washington). USAID made adjustments of $236 million to present more reliable FY 2002 accounts payable balances.

Recording Advances and related Expenses to Grantees - The OIG determined that, as of September 30, 2002, USAID had not recorded about $88 million in expenses related to advance liquidations submitted by its grantees. Our FY 2001 GMRA audit identified about $155 million in expenses related to advances that were not recorded by USAID. However, this internal control weakness continues to exist because USAID does not have a worldwide-integrated financial management system that includes procurement and assistance data. Therefore, obligations established for advances to grantees that are managed by DHHS must be manually entered into the Payment Management System (PMS). USAID has recognized liquidations for about $66 million of the $88 million through its ARS. The remaining $22 million was not recorded as expense or the related liquidations accrued by USAID. Consequently, the obligations related to the $88 million had not been entered into the PMS and the expenses were not recognized and reported by DHHS. USAID made an adjustment of $22 million to present more reliable expenses in its FY 2002 financial statements.

Reviewing, Analyzing, and Deobligating Unliquidated Obligations as Necessary - During the FY 2002 GMRA audit, the OIG determined that USAID had about $153 million in unliquidated obligations that may no longer be needed for the original obligation purposes. USAID's Business Transformation Executive Committee working group, led by the Office of Financial Management, is reviewing the unliquidated obligations to determine the portion that can be deobligated. The OIG will continue to monitor USAID's actions to determine whether its internal control process related to the management of unliquidated obligations has improved.

Recognizing and Reporting Accounts Receivable - The lack of an integrated financial management system continues to hinder USAID's ability to account for its worldwide accounts receivable. Furthermore, USAID has not established and implemented policies and procedures for its missions and the Office of Procurement to immediately recognize accounts receivable. This internal control weakness was reported in our previous GMRA reports. Because this systemic weakness continues to exist, we have included it as a material weakness in this GMRA audit report. As a result, USAID has no assurance that the amount reported for accounts receivable in its FY 2002 financial statements represents all receivables due to USAID. USAID's management has contended that accounts receivable is not material to the financial statements. We do not believe that this amount would cause a material misstatement to the financial statements. During our FY 2003 GMRA audit, we will expand our audit work in this area.

Information Resource Management

OIG audits have identified significant weaknesses in USAID's management of information technology resources. The Clinger-Cohen Act of 1996 requires executive agencies to implement a process that maximizes the value and assesses the management risks involved in information technology investments. Because USAID's management practices have impacted its ability to fully comply with the Act's requirements, its managers have not had access to financial information that is complete, reliable, and timely.

Within Information Resource Management, the OIG identified two challenges in need of attention: (1) information resource management processes, and (2) computer security.

Improving Information Resource Management Processes - In 1997 and 1998, the OIG reported that USAID's processes for procuring and managing information resource technology have not followed the guidelines established by the Clinger-Cohen Act. USAID management has acknowledged the weaknesses of its information resource management processes and has made efforts to improve them. In response to the findings, USAID's Administrator has initiated plans to overhaul and modernize the entire portfolio of systems supporting USAID's procurement and information technology.

In FY 2002, USAID redesigned its overall governance structure for the acquisition and management of information technology (IT) in a manner that elevated the entire IT investment processes, requiring higher senior management participation. Specifically, USAID created the Business Transformation Executive Committee (BTEC), whose membership consists of senior members of management. BTEC's purpose is to provide USAID-wide leadership for initiatives and investments to transform USAID business systems and organizational performance. Some of BTEC's roles and responsibilities include:

- guiding business transformation efforts and ensuring broad-based cooperation, ownership, and accountability for results;
- initiating, reviewing, approving, monitoring, coordinating, and evaluating projects and investments; and
- ensuring that investments are focused on highest pay-off performance improvement opportunities aligned with USAID's programmatic and budget priorities.

In its efforts to track USAID's progress in improving its information resource management processes and in meeting the requirements of the Clinger-Cohen Act, the OIG has actively participated in BTEC meetings, as well as performed a review of USAID's software development practices at overseas missions. Based on the results of that review, the OIG recommended that USAID (1) develop policies and procedures for controlling the installation of software at overseas missions, (2) request all overseas missions to conduct an inventory of the locally developed software and submit the list to headquarters, and (3) develop a process to maintain a current inventory list of software.

The OIG will continue to monitor USAID's progress in improving its information resource management processes. Moreover, the OIG plans to conduct an audit of USAID's investment technology capital planning in FY 2003. That audit will review USAID's process for selecting, monitoring, and evaluating information technology investments.

Improving Computer Security - OIG audits have confirmed that, although USAID has taken steps to improve computer security, more work is needed to ensure that sensitive data are not exposed to unacceptable risks of loss or destruction. Specifically, recent audits showed that USAID did not have adequate computer security controls in place to mitigate the risks to critical information systems. For instance, USAID needs to implement an effective security program for its information systems. In addition, USAID needs to correct other computer security weaknesses by, for example, strengthening logical access controls and eliminating conflicting accounting roles in the financial management process. Finally, USAID needs to conduct certification and accreditation (C&A) on all mission-critical network and financial management systems. This includes conducting a risk assessment, incorporating detailed recovery and testing procedures in a contingency plan, and developing a security plan as required by Federal standards.

In response to OIG audits, USAID has made substantial computer security improvements. For example, it has:

- upgraded the system software for USAID/Washington and most of the missions and, according to USAID management, is ahead of schedule in doing so;
- hired a system security engineer to oversee risk assessments and C&A work;
- built a set of web-based surveys that migrate information directly into a formalized draft security plan;
- developed on-line classes for the annual computer security awareness training and for new user training;
- conducted the C&A of its core financial and procurement systems and began the C&A on the Mission Accounting Control System (MACS) and the General Support System (GSS) in USAID/Washington;
- conducted the C&A of the MACS and GSS at nine USAID missions; and
- implemented practices to standardize the security configurations of computer operating systems.

USAID has also continued to conduct periodic technical vulnerability assessments. Furthermore, USAID is in the process of implementing a methodology that will rank and prioritize its information technology resources. This process will include identifying the kind of activities that could put mission-critical systems at risk, determining the probability that such activities could happen, and estimating the dollar value of the impact. These risk factors will allow USAID to determine how much money to spend based on relative risk, costs, and benefits. The OIG will continue to monitor USAID's progress in improving computer security.

Managing for Results

USAID has programs in over 100 countries promoting a wide range of objectives related to economic growth, agriculture, and trade; global health; and democracy, conflict prevention, and humanitarian assistance. According to a recent General Accounting Office audit report addressing key outcomes and major management challenges, USAID has been faced with multiple programs, unclear mandates, and an out-of-balance ratio of country programs to staff and budget. Further complicating its work are the often-difficult environments and changing program demands that challenge its ability to manage for results and achieve efficient and effective programs.

In addition, Federal laws and regulations exert a powerful influence on USAID's management systems. For example, the Government Performance and Results Act of 1993 (Results Act) requires agencies to set program goals, measure program performance against those goals, and report on their progress. USAID continues to struggle with developing performance measurement and reporting systems that meet internal and external reporting requirements, including the requirements of the Results Act.

A significant element of USAID's performance management system is represented by the Annual Report, a reporting document that is prepared by individual operating units. Annual Reports inform readers within and outside USAID of the results attained with USAID resources, request additional resources, and explain the use of, and results expected from, these additional resources. Information in the annual reports is consolidated to present a USAID-wide picture of achievements in the annual Performance and Accountability Report.

As USAID's performance management system continues to evolve over time, the OIG keeps abreast of current developments by attending management meetings related to performance reporting and reviewing draft plans and reports. It also evaluates relevant policies and procedures, monitors compliance with existing guidelines, and makes recommendations to help USAID improve its performance measurement and results reporting systems. Recent reports on completed OIG audits continue to identify inadequacies in the quality of the data collected and reported by USAID operating units. OIG reports have pointed out areas for improvement in the performance monitoring plans and performance indicators of individual operating units.

In response to OIG recommendations, USAID has agreed to take action to address deficiencies noted during the audits, and the OIG will continue to monitor and recommend improvements to USAID's managing-for-results systems.

Procurement Management

USAID achieves development results largely through intermediaries—contractors or recipients of grants or cooperative agreements—and as a result, efficient and effective acquisition and assistance systems are critical. Under the guidance of USAID's Business Transformation Executive Committee, the Office of Procurement has been the focus of various initiatives for defining ways to improve the effectiveness of acquisition and assistance processes. These activities are in direct response to long-standing challenges that the Office of Procurement has faced in the areas of procurement staffing, activity planning, and acquisition and assistance award and administration.

The OIG recognizes the importance of acquisition and assistance processes to the overall accomplishment of USAID's mission and has, therefore, adopted within its strategic goals an objective to provide timely, quality services that contribute to improvements in USAID's processes for awarding and administering contracts and grants. The accomplishment of this goal entailed developing a multi-year strategy to promote increased efficiency in USAID procurement processes.

The multi-year strategy has taken the form of a multi-year audit plan identifying standards for success for critical acquisition and award processes. Audit plans will be developed to identify the Office of Procurement's status in achieving these standards and develop recommendations for further improvements. An audit report published in November 2002 addressed procurement staffing issues. Another audit in process addresses the roles and responsibilities of the Cognizant Technical Officer function throughout the acquisition and assistance award and administration processes.

Human Capital Management

To ensure USAID's ability to fulfill its mission, its human capital must be properly managed. In the summer of 2001, USAID developed a workforce analysis that highlighted several of its human capital challenges. Among the many challenges it addressed were USAID's aging workforce and the resulting expected high rate of attrition due to retirement. This analysis was submitted to the Office of Management and Budget (OMB) as the first step in implementing the President's initiative for agencies to restructure their workforces. OMB required USAID to develop a five-year workforce-restructuring plan as part of the FY 2003 budget submission and performance plan. Also, in order to ensure accountability for performance and results, the Administration has developed an Executive Branch Management Scorecard system. OMB is using this scorecard to track how well departments and agencies are executing the President's Management Agenda.

USAID has made progress with its human capital management, but OMB has concerns because of delays in completing bureau-level reorganization plans. Nevertheless, OMB recognized that USAID, despite falling behind in this critical area, continues to pursue an ambitious human capital agenda. Although USAID completed a human capital management plan in FY 2002, the plan did not adequately cover all elements of USAID's disparate and scattered workforce. Additional human capital initiatives to be undertaken include an analysis of overseas staff allocations, development of standards for the use of non-U.S. direct-hire employees, and development of a comprehensive civil service recruitment plan.

To help assist USAID with its human capital challenges, the OIG issued a report in December 2002 that evaluated the quality of USAID's workforce data and recommended improvements in data collection and workforce planning. The OIG is committed to increasing audit activity in this area.

Appendix 2: Status of Agency Evaluations

Learning from experience and understanding why programs are succeeding or failing are essential parts of managing for results at USAID. Sharing lessons-learned is critical to improving the implementation and performance of Agency programs. USAID's evaluation findings and recommendations also help shape U.S. Government policies concerning international development.

In FY 2002 USAID completed approximately 100 evaluations and assessments, not counting those done by USAID auditors for financial management purposes. Most evaluations are concerned with program operations and performance—what needs to be done and how it can be done better. There are also evaluations managed directly by USAID's central Office of Development Evaluation and Information. These central evaluations are generally crosscutting, multi-country, and oriented toward policy issues.

To give a flavor of the range of evaluations conducted by USAID in FY 2002, brief summaries of a few of them are cited below. All of USAID's evaluations can be access via the web site: www.dec.org.

Strengthening Education in the Muslim World

In the aftermath of 9/11, there is growing interest in responding to the educational needs and aspirations of the Muslim world in a way that builds on the strengths and ideals of their religious, social and cultural traditions. Many researchers, educators and practitioners believe that improving the educational systems in these countries is one of the ways of bringing about development advances and addressing the issue of religious radicalism. This assessment by USAID's Office of Development Evaluation and Information analyzed education issues in 12 Muslim countries. It generated a number of findings.

Donor assistance has little impact unless national leaders are committed to undertaking educational reforms and increasing educational funding to levels sufficient for bringing about permanent improvements. Educational strategies should address the following weaknesses or impediments that limit the effectiveness of public school systems in most Muslim countries:

- Shortage of primary and secondary schools, particularly in rural areas;
- Insufficient supply of "appropriate" schools for girls;
- Cost impediments for poor families;
- Poor quality of education at all levels;
- Insufficient educational opportunities for out-of-school youth; and
- Weak ministries of education.

Most traditional donor-funded educational activities, whether aimed at increasing the number of students in school or improving education quality, have focused on secular schools. While this has been effective in many countries, making it the only focus in Muslim countries may fail to improve educational outcomes. Educational strategies need to encourage the secular and Islamic school systems to work together to reach all learners.

In some countries, public schools would be the educational choice of most parents if they were more affordable and nearby. In countries where an extremist threat exists, it may make the most sense to make secular schools the primary focus of an educational strategy by increasing the supply of public schools in rural areas and making them more affordable for poor parents. However, in many cases, supporting public schools is not possible in the near-term even with increased educational spending. Alternative strategies could include supporting the establishment of secular community schools or strengthening Islamic schools, particularly those that are under the oversight of the government.

Islamic schools often provide a viable alternative to public schools (due to cost, location or quality). USAID assistance can, among other objectives, usefully improve the quality of education offered by moderate Islamic schools. The following are recommended approaches for strengthening Islamic schools.

- Given the poor academic qualifications of many Islamic schoolteachers, there is a need to upgrade their knowledge of secular subjects.
- Islamic schools that function outside of government oversight are more vulnerable to extremist elements, especially those that receive funding from foreign sources. To root out the radical and dangerous elements that threaten Islamic schools, governments should devise and implement plans for establishing regulations that govern the functioning of all Islamic schools. In countries such as Malaysia, Morocco, Egypt and Uzbekistan, extremist elements in Islamic schools have been minimized to a large extent through the establishment and enforcement of such regulations.

USAID assistance can also help strengthen public schools at the secondary school level where there is a need for vocational and technical training so that students will be employable in a rapidly modernizing economy.

The Role of Transitional Assistance

The end of the Cold War witnessed an increase in armed conflict and civil wars among countries in the developing world. USAID emergency assistance increased dramatically but it was often not enough. Food, shelter, health care and farming tools are important relief measures but at times there are other needs. With violent conflict a country's economic, political and social institutions are often destroyed making it difficult to move from relief into development. Recognizing the need to respond to crises and transitions USAID set up the Office of Transitional Initiatives (OTI) in 1994. An evaluation by USAID's Office of Development Evaluation and Information assessed the overall OTI program and collected and analyzed field data in four countries where OTI recently operated programs (Indonesia, East Timor, Kosovo and Nigeria).

The evaluation found that transitional assistance is effective at moving beyond relief with rapid and flexible short-term assistance. It has worked with reconstruction, infrastructure rehabilitation, economic reactivation, institutional and capacity building efforts, and community and political development.

Thanks to special funding and "not-withstanding" authority, OTI can act quickly and experiment with a variety of innovative approaches. OTI's support of political transitions following crises or civil war, have been very important. OTI has been able to address sensitive political issues—-for example, civilian-military relations in Indonesia, corruption and civilian-military relations in Nigeria, and the development of political opposition in Serbia.

OTI is a bridge between relief and development, which means it must work closely with USAID's Office of Foreign Disaster Assistance (OFDA) and USAID's sustainable development country programs. The evaluation found that in most cases OTI and OFDA implemented and coordinated their programs effectively. On the other hand, the evaluation found that the relationship between OTI and USAID development programs, while improving over time, still faces challenges. OTI country planning relies on activities or projects rather than longer-term strategic planning. Duplication, competition and a failure to mesh assistance efforts needs to be avoided. OTI needs to become an integral part of USAID country mission planning, implementation and results measurements.

In 1994 OTI's mandate called for it to complete their interventions in six months and then transfer further development efforts to other programs. By 1999 the targeted time frame had shifted to two or three years. The evaluation examined 21 completed OTI programs and found that the average duration has crept up to four years. As a short-term transitional program becomes longer, there is a need to better link it to longer-term development planning and programming systems.

There is a clear need for an Agency policy on the duration of transitional assistance and country mission responsibilities for activity continuation as OTI phases-out of a country. Part of the problem seems to be the financial, staff, and procurement constraints of USAID's regualar operations.

Appendix 2: Status of Agency Evaluations

Global Climate Change

Many scientists believe that increased CO2 emissions will change climatic conditions in many parts of the world. There is the possibility that in some regions there will be reduced food production, increased water scarcity and drought or flooding. These climate-induced changes can adversely affect human health and welfare—-particularly in developing countries.

USAID's Climate Change Initiative works to reduce the rate of growth of greenhouse gas emissions; encourages countries to participate in the U.N. Framework Convention on Climate Change; and assists countries to address problems associated with climate change. The USAID program covers more than 40 countries that are contributors to net global greenhouse gas emissions. The Philippines is one of the countries. It has a set of problems and a USAID program that provides useful lessons for other USAID country programs.

In the Philippines USAID implemented a broad range of environmental programs in forestry, energy conservation, and urban and industrial pollution prevention. USAID's office of Development Evaluation and Information completed an evaluation of those programs. The evaluation quantified the extent to which the programs reduced net emissions of greenhouse gases and the value of the reduction in emissions. The annual value of CO2 reductions was significant—$3.4 million a year (CO2 valued at $5.45 per ton). The assessment had three principal conclusions.

- Conventional USAID environmental programs include forestry, land use, energy technology, and urban and industrial pollution. They can raise the income of program beneficiaries through improved land use, increased production and reduced costs. But there are also significant ancillary climate change benefits. For example, a forestry program prevents soil erosion and provides lumber, but it also addresses global climate change by sequestering carbon in the trees.
- The need for both the "supply" and "demand" components is essential in building successful environmental programs. Institution building helps create a supply of environmental services related to climate change. Activities that inform the public about the effects of environmental degradation help create a demand for those services. Public participation by non-governmental organizations, academic institutions and the private sector can help assure sustainability of climate change programs.
- Private firms need to be motivated to adopt energy conservation and pollution prevention measures. If new approaches and new technologies will reduce a firm's costs or increase revenues, they stand a much better chance of being adopted. An even stronger motivation is environmental regulations backed up by strong enforcement and fines. Together, financial benefits and environmental fines can provide a strong motivation to reduce net greenhouse gas emissions.

Highlights from a Sample of Other USAID Evaluations

1. "Funding for the Future? Lessons from the Past. A Review of USAID Dollar Appropriated Endowments," Prepared by Deloitte, Touche, Tohamatsu for USAID/PPC, February 2002.

Since the establishment of USAID's Policy Determination 21, "Guidelines: Endowments Financed with Appropriated Funds, in July 1994, USAID has implemented 30 endowments. This evaluation assesses the soundness of USAID's policy guidance in establishing endowments and recommends ways of improving the guidance. This evaluation was not designed to assess beneficiary impact. Rather, it focuses on the managerial and financial structures of the endowment mechanism.

Major findings and recommendations of the assessment are as follows:

- USAID's policy guidance on endowments is essentially on track, with only minor modifications needed.
- Endowments are a useful mechanism that complements other USAID assistance mechanisms.
- In some cases, endowments were decapitalized faster than anticipated by USAID, and corrective action was needed.

- Endowments can allow USAID to efficiently reach smaller local entities, and work in sectors where USAID otherwise does not have funding.
- The agreement with the entity that handles the investment of the capital needs much more specificity than was previously thought necessary.
- Conditions precedent to disbursement of USAID funds are necessary, even though it is viewed as burdensome by the recipient.
- USAID now has experience with early termination of endowments. This can serve to provide useful specificity in the initial incorporation documents.
- Typically it takes 2 1/2 to 3 1/2 years to make an endowment operational.
- PD-21 needs to be strengthened so that there is better screening of the organizations that are to be the recipients of the endowment funds.
- PD-21 should require regular monitoring of performance by the endowments.
- PD-21 should recommend that overhead spending limits be in each endowment agreement.

2. "An Assessment of USAID Civil Society programs in the Dominican Republic"
http://www.dec.org/pdf_docs/PNACP943.pdf>

USAID found in civil society many organizations eager to engage in democratic advocacy, which challenges authoritarian governmental institutions. USAID provided critical and sustained support to key civil society organizations, creating the Democratic Initiatives Project. The project was successful for these reasons:

- It is difficult to change political habits and institutions. By devising a thorough approach, over a 10-year period it was possible to make the government more accountable and responsive to democratic pressures. A short-term approach could never have succeeded in changing systemic problems.
- It can be counter-productive for a foreign organization like USAID to be associated with democratic reforms. Instead USAID encouraged Dominican institutions to take the visible lead in pushing for reform. This gave legitimacy and credibility to the effort.
- An unintended benefit of USAID's low-profile approach was that it helped alter the image of the U.S. from a self-interested bully to a country that was interested in the economic and political well being of the Dominican Republic.

3. USAID's Hurricane Mitch Reconstruction Program http://www.dec.org/pdf_docs/PDABW567.pdf

- This project has been one of USAID's most successful reconstruction efforts. USAID met or surpassed targets and was able to effectively account for all expenditures and assure that construction was sound. Some of the lessons learned were:
- Putting quality first was more important that running against the expenditure clock.
- Choosing reputable and experienced partners from among the most qualified PVOs and NGOs was important in contributing to rapid implementation of project activities.
- USAID's decision to accelerate start-up by using existing mechanisms to obligate funds and implementing activities contributed to the rapid implementation of activities.
- Practical hands-on management was a vital tool for implementing a major reconstruction program.

- A large, quick increase ("ramp-up") of foreign assistance funding may cause increased corruption. In Honduras USAID programmed concurrent anti-corruption activities alongside the reconstruction program.
- USAID supported a follow-on program mobilizing civil society to push for access to information and to demand accountability and transparency from the government.
- Transparency and accountability are key to improving the lives of the poor. Even though this was a reconstruction program, it made an important contribution to creating a foundation of public awareness and civil-society involvement.

4. Final Evaluation of the Office of Transitional Initiatives' Program in Sierra Leone.
http://www.dec.org/pdf_docs/PDABX237.pdf

This evaluation looked at the impact of two projects in Sierra Leone, the Diamond Management Program (DMP) and the Youth Reintegration Training and Education for Peace Program (YRTEP). Diamonds have been financing much of the armed conflict in West Africa. The DMP's goals were to bring the diamond trade under government control, to expand the legal trade and to cut the trade in conflict diamonds which are financing warfare. This was achieved through:

- Technical assistance to help the Governement of Sierra Leone reform diamond policy and operations by addressing problems of corruption.
- Establishing a Certificate of Origin procedure for Sierra Leone
- Provided training to Mines Monitoring Officers
- Helping the government participate in the Kimberly Process—an international process designed to certify and verify export diamonds and to limit trade in smuggled conflict diamonds.
- Assisting in the establishment of the Diamond Area Community Development Fund, a local community based approach to control the illicit diamond trade.

The goal of the Youth Reintegration Training and Education for Peace Program (YRTEP) program was to help with the process of reintegration and reconciliation of civil war combatants and victims. The program provided:

- Orientation to ex-combatants and war affected youth on issues necessary for reintegration.
- Training in literacy and life skills, vocational counseling and agricultural skills development and civic education.
- While the education component was found to be very stimulating, it was also found to provide few opportunities for participation and interaction, contributing to low literacy gains. It was also found to be too expensive, making production and distribution difficult.
- The program had a quick start up which was attributed to its effectiveness, but resulted in the inability to field-test materials and led to security requirements which made it difficult if not impossible for expatriate program managers to visit sites and effectively manage the program.
- An unanticipated result was that the program encouraged community activism and participation, thus providing the foundation for community involvement in further development programs.

Appendix 3: Selection Rules for Countries in Indicator Tables

Rules for Selecting Countries for EGAT and DG Indicators

Indicator	Selection Rule	Countries
GDP per Capita	Countries with combined FY 2000 funding of at least $1 million in Agency SO 1.1, 1.2, and 1.3 ...and selected transition countries if not included in funding rule.	64 countries with data. No data for Yugoslavia, Kosovo, West Bank/Gaza, and Liberia Serbia and Montenegro programs are represented by data for Federal Republic of Yugoslavia.
Index of Economic Freedom	Countries with FY 2000 funding of $1 million or greater for Agency SO 1.1 ...and selected transition countries if not included in funding rule.	48 countries with data. No data for Kosovo and West Bank/Gaza. Serbia and Montenegro programs are represented by data for FRY.
Agriculture, value added per capita	Countries with FY 2000 funding of at least $1 million for Agency SO 1.2 ...and selected transition countries if not included in funding rule.	39 countries with data. No data for Eritrea, Kosovo and Liberia.
Nationally Protected Areas	Countries with combined FY 2000 funding of at least $1 million for Agency SO's 5.2, 5.3, 5.4, and 5.5 (no funding data available for 5.1) ...and selected transition countrie s if not included in funding rule.	46 countries with data. No data for Kovoso and West Bank/Gaza.
Freedom House Classifications	Countries with FY 2000 funding of at least $1 million for ANY Agency DG SO (2.1, 2.2, 2.3, 2.4) ...and selected transition coun tries if not included in funding rule.	64 countries with data *including* Kovoso and West Bank/Gaza. Serbia and Montenegro programs are represented by data for FRY.
Transition countries are: Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, and Slovak Republic		

Appendix 3: Selection Rules for Countries in Indicator Tables

Rules for Selecting Countries for Global Health Indicators

Indicator	Selection Rule	Countries
Total Fertility Rate	Countries with combined FY 2000 funding of at least $1 million in Agency SO 4.1 ...and Brazil, Colombia, and Mexico if not included in funding rule.	43 countries with 2001 estimates.
Contraceptive Prevalence Rate		36 countries with 2001 estimates.
Under -5 Mortality Rate	Countries with FY 2000 funding of at least $1 million for Agency SO 4.2 ...and Brazil, Colombia, and Mexico if not included in funding rule.	47 countries with 2001 estimates.
Maternal Mortality Rate	Countries with FY 2000 funding of at least $1 million for Agency SO 4.3 ...and Brazil, Colombia, and Mexico if not included in funding rule.	31 countries with estimates for 1990 and 1995.
Births Attended by Trained Medical Personnel		13 countries with two comparable survey data points.
Adult HIV Prevalence Rate	Countries with FY 2000 funding of at least $1 million for Agency SO 4.4 ...and Brazil, Colombia, and Mexico if not included in funding rule.	33 countries with estimates for 1997 and 1999.

Appendix 4: Country Lists by Context Indicator

Growth in Real GDP, Population, and GDP per capita
Average Annual Growth Rates 1997-2000

	Real GDP	Population	GDP per capita
Turkmenistan	12.7	1.3	11.3
Azerbaijan	9.5	0.9	8.5
Albania	7.7	1.1	6.6
Belarus	5.9	-0.7	6.6
Bosnia & Herzegovina	8.6	2.4	6.1
Hungary	4.9	-0.4	5.3
Armenia	5.5	0.4	5.1
Mozambique	7.1	2.0	5.1
Latvia	3.8	-0.7	4.6
Bulgaria	3.9	-0.6	4.5
Kazakhstan	3.3	-1.0	4.4
Rwanda	7.0	2.5	4.4
India	6.2	1.8	4.3
Poland	4.3	0.0	4.3
Estonia	3.7	-0.5	4.2
Tajikistan	5.8	1.7	4.0
Bangladesh	5.5	1.6	3.8
Egypt	5.6	1.9	3.7
Sri Lanka	5.0	1.4	3.5
Macedonia	3.8	0.6	3.2
Russia	2.8	-0.4	3.2
Vietnam	4.4	1.3	3.0
Mali	5.4	2.4	2.9
Croatia	1.9	-0.8	2.8
Uganda	5.6	2.8	2.8
Uzbekistan	4.2	1.4	2.8
Senegal	5.5	2.7	2.7
Nicaragua	5.3	2.8	2.6
Slovak Republic	2.7	0.1	2.6
Georgia	2.6	0.2	2.4
Nepal	4.6	2.3	2.2
Kyrgyzstan	3.6	1.5	2.1
Ghana	4.3	2.3	1.9
Ukraine	1.2	-0.7	1.9
Lithuania	1.6	-0.1	1.7
Mongolia	2.6	0.9	1.6
Tanzania	4.1	2.5	1.6
Guatemala	4.0	2.7	1.3
Madagascar	4.5	3.1	1.3
Namibia	3.5	2.4	1.2
Ethiopia	3.4	2.5	0.9
El Salvador	2.9	2.0	0.8
Malawi	3.0	2.4	0.6
Morocco	2.3	1.7	0.6
Czech Republic	0.4	-0.1	0.5
Bolivia	2.7	2.4	0.3
Philippines	2.3	1.9	0.3
Jordan	3.3	3.1	0.2
South Africa	1.9	1.7	0.2
Haiti	1.9	2.0	-0.1
Lebanon	1.3	1.5	-0.1
Nigeria	2.3	2.6	-0.3
Jamaica	0.3	0.9	-0.5
Guyana	0.2	0.8	-0.6
Peru	1.2	1.7	-0.6
Honduras	2.0	2.7	-0.8
Zambia	1.3	2.2	-0.9
Kenya	0.9	2.2	-1.3
Romania	-1.9	-0.2	-1.7
Moldova	-2.7	-0.4	-2.4
Zimbabwe	-1.0	1.8	-2.8
Ecuador	-1.6	1.9	-3.5
Eritrea	-1.3	2.8	-4.0
Indonesia	-2.8	1.6	-4.4
Fry(Serbia/Mont.)	n/a	n/a	n/a
Kosovo	n/a	n/a	n/a
Liberia	n/a	n/a	n/a
West Bank/Gaza	n/a	n/a	n/a

Notes:

Source: GDP growth rate from IMF, World Economic Outlook, October 2001. Population growth rates from World Bank, World Development Indicators, 2001. Per capita rates are USAID calculations.

n/a- data not available for countries with significant programs in respective USAID strategic objective

Growth in Real Agriculture Per Capita
average annual growth rates 1995-1999

	Agri-culture (value added)	Popula-tion	Agri-culture Per Capita #
Malawi	10.9	2.5	8.2
Bulgaria	5.9	-0.6	6.5
Mozambique	8.7	2.3	6.3
South Africa	6.4	1.9	4.5
Peru	5.6	1.8	3.7
Czech Republic	3.4	-0.1	3.5
Nicaragua	5.9	2.7	3.2
Mongolia	3.9	1.1	2.8
Bangladesh	4.3	1.6	2.6
Lithuania	2.4	-0.1	2.5
Ghana	4.9	2.4	2.4
Armenia	2.7	0.3	2.3
Albania	3.5	1.1	2.3
Slovak Republic	2.6	0.3	2.3
Rwanda	8.9	6.8	2.0
Poland	1.9	0.0	1.9
Mali	4.2	2.4	1.8
Egypt	3.5	1.9	1.6
Hungary	0.7	-0.4	1.1 #
Estonia	0.1	-0.7	0.8
Georgia	0.9	0.2	0.7
Lebanon	2.3	1.7	0.6 #
Uganda	3.5	2.9	0.6
Tanzania	3.2	2.7	0.6
Nigeria	3.1	2.7	0.4
Guatemala	2.8	2.7	0.1
Kenya	2.1	2.2	-0.1
Zambia	2.2	2.4	-0.2
Indonesia	1.4	1.6	-0.3
Ethiopia	2.4	2.7	-0.3
Macedonia	0.3	0.7	-0.4
El Salvador	1.6	2.1	-0.5
Romania	-1.2	-0.3	-1.0
West Bank/Gaza	1.9	3.9	-1.9
Haiti	-0.1	2.1	-2.2
Latvia	-3.6	-0.8	-2.8
Ukraine	-6.6	-0.8	-5.9
Jordan	-3.9	3.1	-6.8
Moldova	-10.1	-0.3	-9.8
Eritrea	n/a	n/a	n/a
Kosovo	n/a	n/a	n/a
Liberia	n/a	n/a	n/a

Notes:

Source: Population growth rates, agriculture value added from World Bank, World Development Indicators, 2001. Per capita rates based on USAID calculations

data are for 1995–1998

n/a - data not available for countries with significant programs in respective USAID strategic objective

Appendix 4: Country Lists by Context Indicator

Economic Freedom Index
Overall Score, 2001

Country	Index Score
Estonia	1.80
Lithuania	2.35
Czech Republic	2.40
Hungary	2.40
Latvia	2.50
Armenia	2.70
Jordan	2.70
Poland	2.70
Peru	2.75
Sri Lanka	2.80
Jamaica	2.90
Mali	2.90
Mongolia	2.90
Slovak Republic	2.90
South Africa	2.90
Uganda	3.00
Morocco	3.05
Mozambique	3.05
Lebanon	3.15
Senegal	3.20
Macedonia	3.25
Zambia	3.25
Albania	3.30
Indonesia	3.35
Moldova	3.35
Bulgaria	3.40
Croatia	3.40
Georgia	3.40
Ghana	3.40
Tanzania	3.40
Azerbaijan	3.50
Egypt	3.55
India	3.55
Kazakhstan	3.60
Kyrgyzstan	3.60
Nigeria	3.60
Bangladesh	3.70
Romania	3.70
Russia	3.70
Haiti	3.80
Tajikistan	3.85
Ukraine	3.85
Vietnam	3.85
Bosnia & Herzegovina	3.90
FRY(Serbia/Mont.)	4.05
Belarus	4.35
Uzbekistan	4.35
Turkmenistan	4.40
Kosovo	n/a
West Bank/Gaza	n/a

Notes:

Source: Heritage Foundation, Index of Economic Freedom 2002

n/a - data not available for countries with significant programs in respective USAID strategic objective

Fertility Rates in USAID-Assisted Countries*
Survey results and 2001 estimates

Country	Latest Survey	Survey Year	Estimate 2001 (1)
Romania	1.3	*1999**	1.2
Belarus	–		1.3
Georgia	1.7	*1999**	1.6
Brazil	2.5	*1996*	1.7
Kazakhstan	2.0	*1999*	1.8
South Africa	–		2.4
Colombia	2.6	*2000*	2.5
India	2.8	*1999*	2.6
Jamaica	2.8	*1997**	2.6
Mexico	–		2.6
Peru	2.8	*2000*	2.7
Indonesia	2.8	*1997*	2.7
Dominican Republic	3.2	*1996*	3.1
Morocco	4.0	*1992*	3.1
Nicaragua	3.6	*1997*	3.2
Bangladesh	3.3	*2000*	3.3
Ecuador	3.4	*1999**	3.3
El Salvador	3.5	*1998**	3.3
Egypt	3.5	*2000*	3.5
Philippines	3.7	*1998*	3.5
Cambodia	3.8	*2000*	3.7
Bolivia	4.2	*1998*	3.8
Jordan	4.4	*1997*	3.8
Zimbabwe	4.0	*1999*	3.9
Ghana	4.4	*1998*	4.0
Kenya	4.7	*1998*	4.3
Paraguay	4.3	*1998**	4.3
Honduras	4.4	*2001**	4.4
Nigeria	4.7	*1999*	4.5
Nepal	4.6	*1996*	4.6
Haiti	4.7	*2000*	4.7
Mozambique	5.2	*1997*	4.8
Guatemala	5.0	*1998*	4.9
Tanzania	5.8	*1996*	5.3
Guinea	5.5	*1999*	5.4
Ethiopia	5.9	*2000*	5.5
Senegal	5.7	*1997*	5.5
Zambia	6.1	*1996*	5.6
Benin	6.0	*1996*	5.7
Madagascar	6.0	*1997*	5.9
Malawi	6.3	*2000*	6.3
Mali	6.7	*1996*	6.8
Uganda	6.9	*1995*	6.9

Notes:

Total fertility rate is the number of children that would be born to a woman if she were to live to the end of her childbearing years and bear children in accordance with prevailing age-specific fertility rates.

Source: Macro International, DHS survey data from online StatCompiler and US BUCEN International Database unless otherwise indicated below

(1) 2001 estimates calculated by USAID based on available DHS and CDC data as well as US BUCEN estimates

n/a - data not available for countries with significant programs in respective USAID strategic objective

* data from Reproductive Health Surveys (CDC)

Appendix 4: Country Lists by Context Indicator

Contraceptive Prevalence in USAID-Assisted Countries
Percent of Women Using Modern Methods

Country	Rate	*Survey Year*	Estimate 2001 *(1)*
Brazil	70.3	*1996*	83.2
Mexico	58.0	*1995*	75.4
Nicaragua	57.4	*1997*	73.4
Dominican Republic	59.2	*1996*	67.8
Jamaica	62.6	*1997*	67.5
Colombia	64.0	*2000*	65.0
Paraguay	47.5	*1998*	58.6
Indonesia	54.7	*1997*	58.4
Kazakhstan	52.7	*1999*	56.4
Zimbabwe	50.4	*1999*	54.1
Ecuador	46.0	*1994*	53.1
Peru	50.4	*2000*	53.0
Egypt	53.9	*2000*	52.1
Morocco	35.5	*1992*	51.4
El Salvador	54.3	*1998*	50.7
Jordan	37.7	*1997*	45.7
India	42.8	*1999*	45.1
Bangladesh	44.0	*2000*	44.5
Guatemala	30.9	*1998*	35.5
Kenya	31.5	*1998*	34.3
Bolivia	25.2	*1998*	32.7
Tanzania	13.3	*1996*	31.9
Malawi	26.1	*2000*	31.8
Philippines	28.2	*1998*	30.4
Nepal	26.0	*1996*	28.0
Zambia	14.4	*1996*	26.3
Haiti	22.8	*2000*	25.0
Cambodia	18.8	*2000*	23.0
Uganda	7.8	*1995*	20.7
Madagascar	9.7	*1997*	16.2
Ghana	13.3	*1998*	15.7
Senegal	8.1	*1997*	12.3
Nigeria	8.6	*2000*	9.4
Mali	4.5	*1996*	9.0
Ethiopia	6.3	*2000*	6.9
Guinea	4.2	*1999*	6.3
Mozambique	5.1	*1997*	(2)
Belarus	42.1	*1995*	(2)
Benin	3.4	*1996*	(2)
Georgia	19.8	*1999**	(2)
Honduras	32.9	*1987*	(2)
South Africa	48.4	*1988*	(2)
Romania	n/a		n/a

Notes:

Source: Macro International, DHS survey data from online StatCompiler and US BUCEN, International Database unless otherwise indicated below

(1) 2001 estimates calculated by USAID based on available DHS and CDC data as well as US BUCEN estimates

(2) 2001 estimates not calculated due to limited survey data points

n/a - data not available for countries with significant programs in respective USAID strategic objective

* data from Reproductive Health Surveys (CDC)

Child Mortality in USAID-Assisted Countries
Under-5 Motality Rate

Country	DHS latest	*Survey Year*	Estimate 2001 *(1)*
Colombia	25	*2000*	23
Romania	—		24
Russia	—		24
West Bank**	—		26
Brazil	49	*1996*	28
Gaza Strip**	—		30
Vietnam	38	*1997*	33
Ecuador	39	*1999**	35
Mexico	—		37
Indonesia	58	*1997*	37
El Salvador	43	*1998**	38
Nicaragua	50	*1997*	41
Honduras	48	*1996**	43
Morocco	76	*1992*	44
Peru	47	*2000*	44
Philippines	48	*1998*	45
Egypt	54	*2000*	50
Georgia	45	*1999**	50
Guatemala	59	*1998*	51
Uzbekistan	59	*1996*	60
Bolivia	92	*1998*	77
Kyrgyzstan	72	*1997*	78
Bangladesh	94	*2000*	89
India	95	*1999*	91
Azerbaijan	—		95
Ghana	108	*1998*	102
Nepal	118	*1996*	103
Burma (Myanmar)	—		107
Haiti	119	*2000*	117
Cambodia	124	*2000*	118
Eritrea	136	*1995*	119
Kenya	112	*1998*	123
South Africa	—		124
Uganda	147	*1995*	125
Nigeria	140	*1999*	130
Tanzania	137	*1996*	132
Senegal	139	*1997*	145
Congo (Kinshasa)	—		151
Rwanda	151	*1992*	152
Benin	167	*1996*	155
Madagascar	159	*1997*	156
Ethiopia	166	*2000*	164
Guinea	177	*1999*	172
Malawi	189	*2000*	184
Liberia	—		204
Mozambique	201	*1997*	204
Zambia	197	*1996*	205
Mali	238	*1996*	233
Angola	—		285

Notes:

Under-5 Mortality is the probability a newborn baby will die before reaching age 5, measured as the number of deaths per 1,000 live births.

Source: Macro International, DHS survey data from online StatCompiler unless otherwise indicated below

(1) 2001 estimates calculated by USAID based on available DHS and CDC data as well as US BUCEN estimates

* data from Reproductive Health Surveys (CDC)

** estimates for West Bank and Gaza reported separately by US BUCEN

Appendix 5: Indicator Data Sources and Quality Issues

Real GDP per capita growth Rates - Data source for estimates of real GDP growth are from IMF World Economic Outlook, October 2001. Population growth rates were calculated from population figures from the World Bank, World Development Indicators, 2001. Rolling averages where calculated for both indicators using geometric mean based on endpoints (assuming year 1 = 100). Corresponding averages of population and GDP were used to calculate the per capita rate. USAID has established four ranges of per capita growth performance: 5% or more, 1%-5%, 0%-1% and negative growth.

Data Quality - Data from the IMF World Economic Outlook are maintained jointly by the IMF's Research Department and area departments, with the latter regularly updating country projections based on consistent global assumptions.

For developing countries, figures for recent years are IMF staff estimates. Data for some countries are for fiscal years. For countries in transition, data for some countries refer to real net material product (NMP) or are estimates based on NMP. For many countries, figures for recent years are IMF staff estimates. The figures should be interpreted only as indicative of broad orders of magnitude because reliable, comparable data are not generally available. In particular, the growth of output of new private enterprises or of the informal economy is not fully reflected in the recent figures. - IMF WEO.

Assumptions: The IMF estimates and projection are based on the assumption that established policies of national authorities are to be maintained. In addition, other financial assumption concerning the future price of oil, levels of interest rates for US, Japanese, and Euro deposits. For more detailed information on the IMF's methodology see Fund's website at: http://www.imf.org.

World Bank estimates of mid-year population are generally based on extrapolations from the most recent national census. The estimates do not include refugees not permanently settled in the country of asylum. These estimates are produced by its Human Development Network and Development Data Group in consultation with its operational staff and country offices and include inputs from census reports and other statistical publications from the UN, CDC, and U.S. Bureau of the Census.

Economic Freedom Index - The source for the Economic Freedom Index is the annual publication Index of Economic Freedom, co-published by the Heritage Foundation and the Wall Street Journal. Economic freedom is defined in the publication as *"the absence of government coercion or constraint on the production, distribution, or consumption of goods and services beyond the extent necessary for citizens to protect and maintain liberty itself."* The overall score is the average of ten factors. The data included in this report includes the latest report (2002). USAID has established four ranges of Economic Freedom Index scores: 4-5, 3-3.95, 2-2.95, and 1-1.95.

Data Quality - Countries are scored using 50 independent variables, classified into 10 broad economic factors:

- Trade policy (based on tariff rates and existence of non-tariff barriers)
- Fiscal burden of government (based on the existence and levels of income and flat taxes, corporate taxes, and levels of government expenditures)
- Government intervention in the economy (based on levels of government consumption and ownership of businesses and industries)
- Monetary policy (inflation rates)
- Capital flows and foreign investment (includes the levels of restrictions on foreign ownership of business, restrictions on foreign companies, restrictions on repatriation of earnings)
- Banking and finance (government control of banks, allocation of credit, and regulation of financial services and insurance policies)
- Wages and prices (existence of minimum wage laws, government price controls, and government subsidies)

- Property rights (includes levels of freedom of the judicial system, contracts, and protection of private property)
- Regulation (includes ease of business licensing, levels of labor and environmental regulations)
- Black market (includes levels of piracy of intellectual property and level of goods and services supplied to the black market)

The scale runs from 1 to 5 with 1 being the most free and 5 the least free. The higher the score, the less supportive of private markets are institutions and policies. For more see the 2002 edition of Index of Economic Freedom or visit: http://www.heritage.org/bookstore/2001/index2002/.

Agriculture production per capita growth rates - Agriculture, value added, defined as the net output of all agricultural goods after adding up all outputs and subtracting intermediate inputs. Agriculture includes forestry and fishing. Data source for estimates of real agricultural-sector growth and population are from the World Bank, World Development Indicators, 2001. Rolling averages where calculated for both indicators using geometric mean based on endpoints (assuming year 1 = 100). Corresponding averages of population and agriculture were used to calculate the per capita rate. USAID has established four ranges of per capita growth performance: 5% or more, 1%-5%, 0%-1% and negative growth.

Data Quality - World Bank agricultural-sector data is based on ISIC divisions 1-5 and includes forestry and fishing. “value added” is the net output after adding up all outputs and subtracting intermediate inputs.

National account data are collected from national statistical organizations and central banks by World Bank missions and from UN national accounts publications.

Among the difficulties using data from compiled national accounts is the extent of unreported informal economic activity. In developing countries large shares of agricultural output is either not exchanged (consumed in households) or not exchanged for money. Agricultural production has to be estimated based on yields and cultivation areas. For more about the World Bank’s methodology, see their website at: http://www.worldbank.org/data/wdi2001/index.htm.

For population data, see the above discussion under GDP per capita.

Nationally protected areas - Data on protected areas are from the World Conservation Monitoring Centre’s (WCMC) Protected Areas Data Unit and are obtained from various editions of World Resources Institute’s World Resources (latest is 2000-2001).

Data Quality - Nationally protected areas are defined as totally or partially protected areas of at least 1,000 hectares that are designed as national parks, natural monuments, nature reserves or wildlife sanctuaries, protected landscapes and seascapes, or scientific reserves with limited public access. The data do not include sites protected under local or provincial law. Data on nationally protected areas are in thousand square kilometers. Designation of land as protected does not necessarily mean that protection is in force. For more detailed information about protected areas see the World Resources 2000-2001 data tables and technical notes at: http://www.wri.org/wr-00-01/pdf/bi1n_2000.pdf.

For general information on biodiversity at: http://www.wri.org/biodiv/.

Total Fertility Rate - Source: Demographic and Health Surveys (DHS), Reproductive Health Surveys from the Centers for Disease Control (CDC), and U.S. Bureau of the Census, International Database, May 2000. The total fertility rate represents the number of children that would be born to a woman if she were to live to the end of her childbearing years and bear children in accordance with prevailing, age-specific fertility rates.

Methodology - USAID calculated fertility rate trends based on the available survey data augmented by BUCEN estimates. Three methods were used.

- For countries with at least two survey data points, a growth trend was derived from the slope between the two points.

Appendix 5: Indicator Data Sources and Quality Issues

- Where only one survey data point existed the trend was calculated based on BUCEN's average annual growth rate for the period of analysis (1989-2001). This rate was used to estimate the data points before and after the single survey observation.
- Where no survey data was available the actual BUCEN estimates were used.

USAID established six ranges of fertility reduction performance: under 2, 2-2.9, 3-3.9, 4-4.9, 5-5.9, and 6 and over.

Data Quality - See DHS, CDC, and US BUCEN description below.

Contraceptive prevalence rate - Source: Demographic and Health Surveys (DHS) and U.S. Bureau of the Census, International Database, May 2000. Contraceptive prevalence rate is defined as the percentage of married women, ages 15-49, who are practicing, or whose sexual partners are practicing, any modern method of contraceptive. Modern methods include birth control pills, IUDs, injections, condoms, both female and male sterilization, and implants.

Methodology: All countries in the analysis had at least two survey data points from either DHS or BUCEN-reported sources. Annual rates were calculated from the slope between data points. For 2000 and 2001 estimates the most recent growth rate was applied to the last survey point. USAID established four ranges of contraceptive prevalence performance: 50% and over, 35-49%, 16%-34%, and 15% and under.

Data Quality - See DHS and US BUCEN description below.

Under-5 mortality rate - Source: Demographic and Health Surveys (DHS), Reproductive Health Surveys from the Centers for Disease Control (CDC), and U.S. Bureau of the Census, International Database, May 2000

The under five-mortality rate is the probability that a newborn baby will die before reaching age five, if subject to current age-specific mortality rates. It is expressed as the number of deaths per 1,000 live births. Methodology: USAID calculated mortality rate trends based on the available survey data augmented by BUCEN estimates. Three methods were used.

- For countries with at least two survey data points, a growth trend was derived from the slope between the two points.
- Where only one survey data point existed the trend was calculated based on BUCEN's average annual growth rate for the period of analysis (1989-2001). This rate was used to estimate the data points before and after the single survey observation.
- Where no survey data was available the actual BUCEN estimates were used.

USAID established six ranges of mortality reduction performance: under 50, 50-99, 100-149, 150-199, and 200 and over.

Data Quality - See DHS, CDC, and US BUCEN description below.

DPT vaccination coverage - Source: Demographic and Health Surveys (DHS). This rate is the percentage of children 12 months or less who have received their third dose of DPT vaccine. To show vaccination trends, the available DHS data was divided into two time periods, 1990-1994 and 1995 and after. Only those countries that had data point in both periods where included (15).

Data Quality - See DHS description below.

Oral rehydration therapy use - Source: Demographic and Health Surveys (DHS) and Reproductive Health Surveys from the Centers for Disease Control (CDC). This rate is the percentage of children ages 6-59 months who had a case of diarrhea in the last two weeks and received oral rehydration therapy. To show therapy trends, the available DHS data was divided into two time periods, 1990-1994 and 1995 and after. Only those countries that had data point in both periods where included (13).

Data Quality - See DHS and CDC description below.

Maternal mortality rate - The World Health Organization and UNICEF and UNDP have collaborated on two studies of maternal mortality last decade. For 1990 estimates the source is WHO/UNICEF, Revised 1990 Estimates of Maternal Mortality, 1996. For 1995 data WHO, UNICEF, and UNDP produced Maternal Mortality in 1995, 2001. Maternal mortality rate is the number of women who die during pregnancy and childbirth, per 100,000 live births.

Data Quality - Maternal mortality is complex and very difficult to measure. The 2001 report was an attempt to arrive at the most accurate estimates from available technical experts and information sources. Few developing countries have reliable national estimate of maternal mortality. Country level estimates are based on vital registration data, direct sisterhood estimates (DHS method), Reproductive Age Mortality Studies (RAMOS, which involved identifying and investigating the causes of all deaths of women), verbal autopsy techniques, census data, and estimates generated from WHO/UNICEF models. For a complete report on maternal mortality and difficulties inherent in measurement see the 2001 report mentioned above at: http://www.who.int/reproductive-health/publications/RHR_01_9_maternal_mortality_estimates/index.en.html.

Births attended by medically trained personnel - Source: Demographic and Health Surveys (DHS) and CDC Reproductive Health Surveys. Medically trained personnel include doctors and trained nurse/midwife or other health professional. It does not include nontrained birth attendants. To show attendance trends, the available DHS data was divided into two time periods, 1990-1994 and 1995 and after. Only those countries that had data point in both periods where included (12).

Data Quality - See DHS and CDC description below.

Adult HIV prevalence rates - The source for 1997 and 1999 estimates are from UNAIDS. UNAIDS estimates country-level prevalence rates on a biennial basis. Source: Report on the Global HIV/AIDS Epidemic - June 1998, and June 2000. The rate is the estimated number of adults living with HIV/AIDS divided by the adult population. Adults are defined as ages 15-49. USAID established six ranges of HIV prevalence levels: under 1 percent, 1-4.9 percent, 5-9.9 percent, 10-14.9 percent, 15-20 percent and more than 20 percent.

Data Quality - Estimates of HIV prevalence for 1997 were compiled from individual Epidemiological Fact Sheets and from methodologies detailed in UNAIDS, *Country-specific estimates and models of HIV and AIDS: methods and limitations. (Schwartlander B, Stanecki KA) , which "describes and discusses the processes and obstacles that were encountered in this multi-partner collaboration including national and international experts. The 1997 estimates required two basic steps. First, point prevalence estimates for 1994 and 1997 were carried out and the starting year of the epidemic was determined for each country. The procedures used to calculate the estimates of prevalence differed according to the assumed type of the epidemic and the available data. The second step involved using these estimates of prevalence over time and the starting date of the epidemic to determine the epidemic curve that best described the spread of HIV in each particular country. A simple epidemiological program (EPIMODEL) was used for the calculation of estimates on incidence and mortality from this epidemic curve. ...The result of this first country-specific estimation process yielded higher estimates of HIV infection than previously thought likely, with more than 30 million people estimated to be living with HIV/AIDS. The application of survival times that are specific to countries and regions also resulted in higher estimates of mortality, which more accurately describe the impact of the epidemics. ...There are, however, shortcomings in the current systems of monitoring the epidemic. Improvements in HIV surveillance systems are needed in many parts of the world. In addition, further research is needed to understand fully the effects of the fertility reduction as a result of HIV, differing sex ratios in HIV infection and other factors influencing the course and measurement of the epidemic." -abstract of the report from PubMed, National Library of Medicine.*

Number of HIV Infections Averted - Over the past several years, USAID, UNAIDS, WHO and other international HIV/AIDS donors have done extensive research into developing a model for estimating numbers of HIV infections averted based on the total impact of several preventive interventions. This year is the first year that we will be reporting this figure in USAID's

Appendix 5: Indicator Data Sources and Quality Issues

Annual Performance Report. While the methodology will be refined as we learn more about the transmission of the virus, we believe that the current estimations are sufficiently reliable to begin to judge the impact of a program on the progress of the epidemic both in individual countries and worldwide.

This estimation is obtained by calculating the number of averted infections in a given year based on the coverage of prevention services in that year, and assumptions about their effectiveness derived from the scientific literature.

The number of infections averted is estimated for four types of preventive services and summed. Those preventive services are: Voluntary Counseling and Testing (VCT), Prevention of Mother to Child Transmission (PMTCT), condoms, and safe blood. Factors and assumptions used in these calculations, and their derivation, are as follows:

VCT - For African countries 1000 infections averted per 10,000 VCT clients. Based on Sweat, Gregorich, et al "Cost-effectiveness of voluntary HIV-1 counseling and testing in reducing sexual transmission of HIV-1 in Kenya and Tanzania" The Lancet Vol 356 Jly 8, 2000. For countries outside Africa 8 infections averted per 10,000 VCT clients based on Varghese, Peterman and Holtgrave "Cost-effectiveness of counseling and testing and partner notification: a decision analysis" AIDS 1999 13:1745-1751.

PMTCT ARVs (anti-retroviral drugs) - Assume that 35% of HIV+ pregnant women would transmit the infection in the absence of ARVs. The ARV treatment averts half of these infections.

Condoms - Assume 500 condoms per infection averted in Africa and 1500 condoms per infection averted elsewhere. This is based on attached description "Condoms and HIV".

Safe blood - The units of blood collected multiplied by HIV prevalence is the number of infected units that would be transfused with no screening. Assume one unit per person. Multiply the number of infected units by (1 - HIV prevalence) to find the number of new infections transmitted.

Freedom classifications from Freedom House - Each year the Freedom Foundation publishes the Freedom in the World annual survey. The survey team classifies countries as free (=1), partly free (=2), or not free (=3), based upon ratings of political rights and civil liberties (each is scored separately on a seven-point scale with 1 representing most free and 7 the least free). A country is assigned to one of the three categories based on responses to a checklist of questions about political rights and civil liberties and on the judgements of the Freedom House survey team.

Data Quality - The numbers are not purely mechanical but reflect judgements. The classification measures the extent to which individuals enjoy rights and freedoms in each country. Broadly defined, freedom encompasses two sets of characteristics grouped under political rights and civil liberties. Political rights enable people to participate freely in the political process. Civil liberties refer to freedoms to develop views, institutions, and personal autonomy apart from the state. Data are through 2001 edition of the survey (reporting on the situation in 2000).

Demographic and Health Surveys - Funded by USAID, Demographic and health surveys provide information on family planning, maternal and child health, child survival, HIV/AIDS/STIs (sexually transmitted infections), and reproductive health.

DHS surveys are nationally representative household surveys with large sample sizes of between 5,000 and 30,000 households, typically. DHS surveys provide data for a wide range of monitoring and impact evaluation indicators in the areas of population, health, and nutrition.

The core questionnaire for MEASURE DHS+ emphasizes basic indicators and flexibility. It allows for the addition of special modules so that questionnaires can be tailored to meet host-country and USAID data needs. The standard DHS survey consists of a household questionnaire and women's questionnaire. A nationally representative sample of women ages 15-49 are interviewed. For more on DHS survey methods and processes see: http://www.measuredhs.com/

Appendix 5: Indicator Data Sources and Quality Issues

CDC International Reproductive Health Surveys (IRHS) - The Centers for Disease Control and Prevention (CDC) provides technical assistance with population-based surveys that help USAID to assess program needs and monitor program performance and impact over time. CDC has been providing technical assistance for such surveys since 1975, and has helped to carry out reproductive health surveys in Latin America, the Caribbean, Central and Eastern Europe, the former Soviet Union, Africa, and the Middle East. CDC trains its host counterparts in all aspects of survey implementation.

IRHS surveys are conducted at a national, and occasionally at the sub-national level. These surveys measure a wide variety of health and demographic indicators such as fertility, contraceptive use, infant and child mortality, child health, maternal morbidity and mortality, and knowledge and attitudes about HIV/AIDS and sexually transmitted infections. For more on the IRHS see the CDC website: http://www.cdc.gov/nccdphp/drh/logistics/global_rhs.htm

U.S. Bureau of the Census - The Bureau's International Programs Center (IPC) maintains the International Database (IDB). The IDB combines data from country sources with IPC's estimates and projections to provide information dating back as far as 1950 and as far ahead as 2050. The estimates are based on data from national statistics offices, survey data, and UN publications.

For most developing countries various techniques have been developed to evaluate and correct information on deaths and fertility in relation to information on population. Data are collected either directly from vital statistics registers, when available, or indirectly from census, survey information or statistics from international organizations such as the UN's World Population Prospects. Underregistration of deaths is adjusted based on the stability of the country populations.

For an in-depth review of the IPC's methodology for estimating and projecting fertility and mortality see the Center's World Population Profile 1998 (See Appendix B Population Projections and Availability of Data) available online at: http://www.census.gov/ipc/www/wp98

Appendix 6: Involvement of Non-Federal Parties

All editorial direction and most text drafting and editing were done by USAID dire hire employees. In addition, USAID received assistance for the following nonfederal parties.

LTS, Inc. provided support with database management and collating much of the context and strategic objective accomplishment data. IBM Business Consulting Services is a contractor to the Bureau for Policy and Program Coordination. IBM has experience assisting USAID and other Federal agencies with the preparation of agency performance reports, in compliance with the Government Performance and Results Act and guidance from the Office of Management and Budget. For this report, IBM suggested timelines, provided editorial direction and logistical support.

Acronyms

A&A	Acquisition and Assistance
ABS	Agency Budget Submission
ADS	Automated Directives System
AIDS	Acquired Immunodeficiency Syndrome
AFR	Bureau for Africa
ANE	Bureau for Asia and the Near East
APP	Annual Performance Plan
APR	Annual Performance Report
ASP	Agency Strategic Plan
BUCEN	U.S. Bureau of the Census
BTEC	Business Transformation Executive Committee
CARPE	Central Africa Regional Program for the Environment
CFO	Chief Financial Officer
CIF	Capital Investment Fund
CIO	Chief Information Officer
CMR	Crude Mortality Rate
CO	Contract Officer
COTS	Commercial Off-the-Shelf
CS	Civil Service
CSH	Child Survival and Health Funds
COOP	Continuity of Operations Plan
CTO	Cognizant Technical Officer
CRB	Contract Review Board
CPR	Contraceptive Prevalence Rate
DA	Development Assistance Funds
DCHA	Bureau for Democracy, Conflict, and Humanitarian Assistance
DFI	Direct Foreign Investment
DG	Democracy and Governance
DHHS	Department of Health and Human Services
DHS	Demographic and Health Survey
DOTS	Directly Observed Therapy, Short Course
DPT	Diptheria, Pertussis and Tetanus vaccine
E&E	Bureau for Europe and Eurasia
EGAT	Bureau for Economic Growth, Agriculture and Trade
ESF	Economic Support Funds
EU	European Union
FACS	Financial Accounting and Control System
FFMIA	Federal Financial Management Improvement Act
FFP	Office of Food for Peace
FP	Family Planning
FS	Foreign Service
FSA	Freedom Support Act
FSI	Financial Systems Integration
FY	Fiscal Year
GAVI	Global Accelerated Vaccine Initiative
GDA	Global Development Alliance
GDP	Gross Domestic Product
GH	Bureau for Global Health
GMRA	Government Management and Reform Act
GOX	Government of X [country name]
GPRA	Government Performance and Results Act
HC	Human Capital
HCD	Human Capacity Development
HIV	Human Immunodeficiency Virus
IDA	International Development Assistance

Acronyms

IDP	Internally Displaced Persons
IQC	Indefinite Quantity Contract
IM	Information Management
IMCI	Integrated Management of Childhood Illnesses
IRM	Information Resources Management
IT	Information Technology
JFMIP	Joint Financial Management Improvement Program
LAC	Bureau for Latin America and Caribbean
MCA	Millennium Challenge Account
MCRC	Management Control Review Committee
MCTC	Maternal to Child Transmission
MoH	Ministry of Health
NEP	New Entry Professional
NGO	Nongovernmental Organization
NIS	Newly Independent States
NMS	New Management System
ODA	Official Development Assistance
OFDA	Office of U.S. Foreign Disaster Assistance
OIG	Office of the Inspector General
OTI	Office of Transition Initiatives
OU	Operating Unit
OYB	Operating Year Budget
PAR	Performance and Accountability Report
PART	Program Assessment and Rating Tool
PEB	Post Employment Benefits
PIP	Parks in Peril
P.L.	Public Law
PMA	President's Management Agenda
PMP	Performance Monitoring Plan
PPC	Bureau for Policy and Program Coordination
PVC	Private and Voluntary Cooperation
PVO	Private Voluntary Organization
RIF	Reduction in Force
SMEs	Small and Medium Enterprises
SO	Strategic Objective
STI	Sexually transmitted infection
STATE	U.S. Department of State
TB	Tuberculosis
TFR	Total Fertility Rate
TRADE	Trade for African Development and Enterprise
UNAIDS	Joint United Nations Programme on HIV/AIDS
UNDP	United Nations Development Program
UNEP	United Nations Environment Program
UNESCO	United Nations Educational, Scientific, and Cultural Organization
UNFCCC	United Nations Framework Convention on Climate Change
UNICEF	United Nations Children's Fund
USAID	U.S. Agency for International Development
USAID	USAID Washington headquarters
USDH	United States Direct Hire
VCT	Voluntary Counseling and Testing
WHO	World Health Organization
WSSD	World Summit on Sustainable Development
WTO	World Trade Organization

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