USAID
FROM THE AMERICAN PEOPLE

Performance and Accountability Report Fiscal Year 2005

THE TSUNAMI STRUCK

We Were There

PROVIDING ASSISTANCE, RESTORING HOPE, REBUILDING LIVES.

We Help Millions Everyday

FACING THEIR OWN *SILENT* TSUNAMIS.

USAID

FROM THE AMERICAN PEOPLE

In January 2005, USAID launched a **Branding Campaign** to ensure U.S. taxpayers receive full credit for the foreign aid they finance. We added a new "brandmark" with a tagline that clearly communicates our assistance is **"From the American people."** The new branding is now required by federal regulation on all programs, projects, activities, public communications, and commodities USAID finances through all implementing partners.

USAID
من الشعب الأمريكي

USAID
AMERIKA XALQINDAN

USAID
ОТ АМЕРИКАНСКОГО НАРОДА

USAID
DU PEUPLE AMERICAIN

USAID
DO POVO DOS ESTADOS UNIDOS

USAID
АМЕРИКАНЫН ЭЛИНЕН

USAID
DO POVO AMERICANO

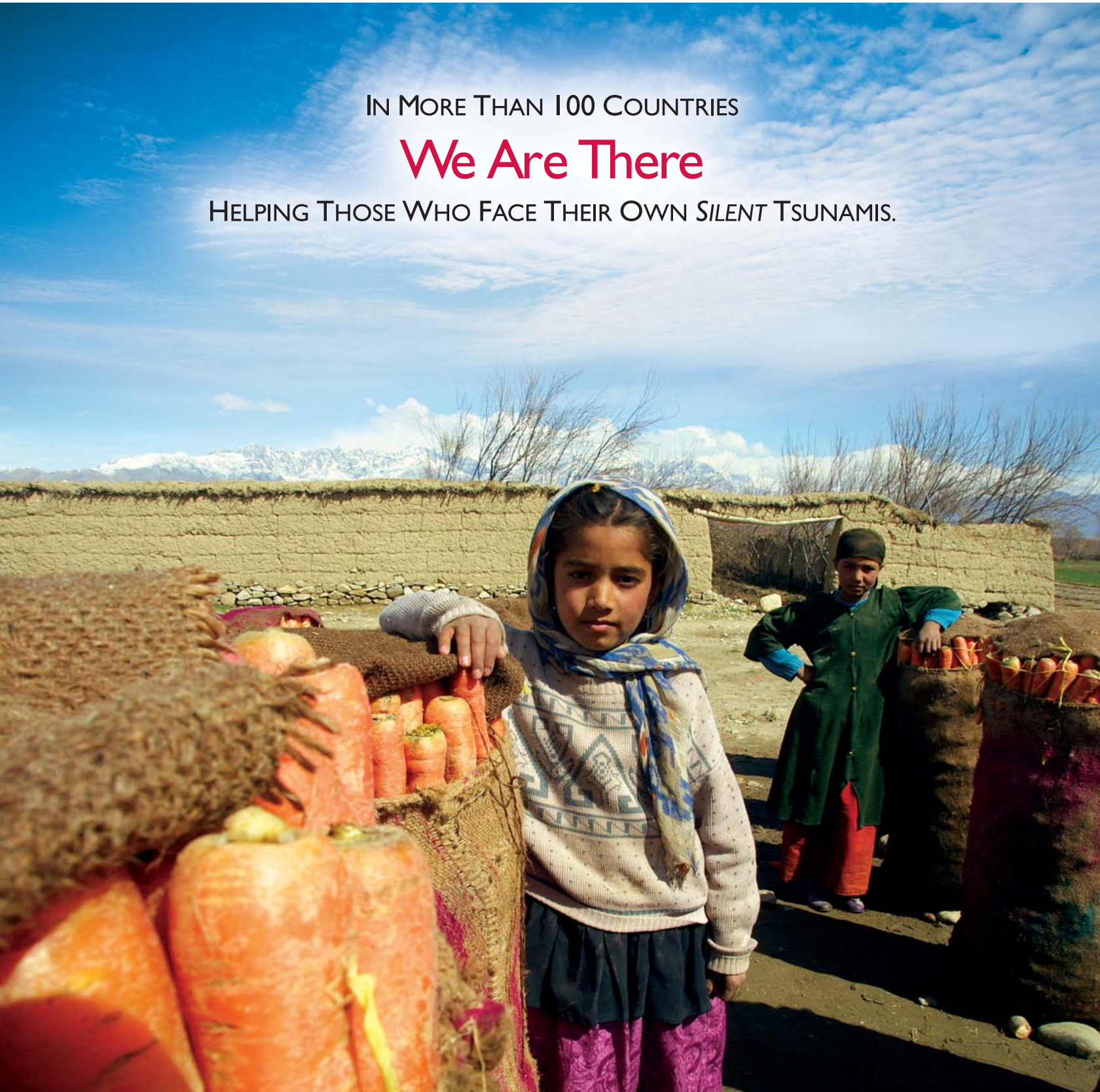
USAID
DEL PUEBLO DE LOS ESTADOS UNIDOS DE AMÉRICA

USAID
ВІД АМЕРИКАНСЬКОГО НАРОДУ

USAID
FROM THE AMERICAN PEOPLE

Performance and Accountability Report Fiscal Year 2005

2005



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A MESSAGE FROM THE USAID ADMINISTRATOR

I am pleased to present our Performance and Accountability Report (PAR) for Fiscal Year (FY) 2005 on behalf of the U.S. Agency for International Development (USAID). This year's report highlights our efforts to support President Bush's National Security Strategy, which recognized development as a cornerstone of U.S. foreign policy, along with defense and diplomacy.

As USAID's Administrator, I am proud of the work we have accomplished meeting the challenges of an expanding foreign assistance agenda. Our new framework has given the Agency a more coherent approach, helping us identify core operational goals, better align resources with goals, and improve our overall management.

The results of these new efficiencies could be seen in our response to the catastrophic tsunami of December 26, 2004. As the lead agency for the U.S. government, we immediately sent a special Disaster Assistance Response Team (DART) to the region along with 100 others to assess the damage. Working in close partnership with the U.S. military, we provided critically needed food, water, medical care, and shelter. The speed with which we acted saved many lives and mitigated much suffering. In Washington, we set up a Tsunami Task Force to oversee and analyze efforts. In another first, we used funds from our disaster account to begin reconstruction in short order. At every stage, we focused on both short-term needs and long-term objectives: initiating microcredit programs; assisting displaced people; offering cash-for-work; restoring fisheries and farms; rebuilding essential infrastructure; developing early warning systems; and rehabilitating and rebuilding schools, health clinics, and public utilities.

USAID has employees in more than 100 countries who stand ready to meet any ensuing wave of development. Whether it be the Tsunami that affected dozens of countries and hundreds of thousands of people across Southeast Asia on one fated morning, or the silent tsunamis of poverty, instability, illiteracy, inequality, hunger, pollution, disease, and corruption that affect more than half the world population every day.

USAID Administrator Natsios with head engineer Askar in Muftie, Rodat (Nangarhar), Afghanistan. Building gabion walls and removing 25 years of built-up silt from the canals will significantly increase the flow of water to the affected area, enabling farmers to grow crops needing multiple floodings. PHOTO: USAID/MICHELLE PARKER

We also continued vital humanitarian assistance to Sudan this year, particularly in Darfur, where conditions remain acute. USAID was by far the largest donor of food assistance to Darfur during FY 2005, providing more than 376,000 metric tons, enough for approximately two million people. In addition to our extensive efforts in the South, which contributed to the accord between the North and South and the new interim Constitution, the Agency redirected some 8,450 metric tons of food already on the high seas in a quick response to a worsening food shortage in several regions of the country. Along with our immunization, sanitation, and security programs, the food helped

USAID Administrator Natsios discussing development plans with Cofan indigenous people in Ecuador. PHOTO: USAID/MICHELLE PARKER

sustain life in the country's many refugee camps and improved conditions in surrounding villages.

In accordance with President Bush's National Security Strategy, USAID has given heightened attention to weak and fragile states. Addressing these problems in their infancy are critical for international stability and American security, as about a third of the world lives in zones of conflict and recurrent instability. Consequently, we developed a new Fragile States Strategy this year to guide our efforts to reverse state decline and advance recovery to a point where transformational development can take place.

Iraq is our biggest program and largest challenge. In January, the country's first democratic elections in half a century were held, with 60 percent of the eligible voters participating despite widespread threats from insurgents. USAID devoted $86 million to this effort, funding voter registration, education, and monitoring. We also worked closely with women leaders to ensure their participation in reconstruction programs. With our encouragement, the Governing Council adopted equal rights legislation so that women can contribute to the country's social, political, and economic life with full legal and human rights. USAID has also promoted the status of women in Afghanistan, providing more than $50 million to support women's issues since the fall of the Taliban through programs ranging from education to business ventures.

Part of USAID's work is to promote far-reaching, fundamental changes in governance and institutions so that countries can make needed economic and social reforms. Consequently, we have encouraged programs to fuel local economies and train officials. Encouraging partnerships within poor countries not only engages local businesses, but enables governments and communities to rely more on their own resources and be less dependent on foreign aid.

USAID also provides significant assistance in areas such as disease control and forest management in support of several presidential initiatives. One of the most prominent is PEPFAR, the President's Emergency Plan for AIDS Relief, for which we provide 60 percent of the overall funding. Fighting HIV/AIDS is one of the Administration's top priorities, and we are actively working in each of the priority countries. We are taking particular steps to alleviate the suffering of women and children who bear the brunt of the disease, as they are victims of both the pandemic and HIV/AIDS discrimination.

In order to support President Bush's new initiative to fight malaria, USAID increased its funding budget, targeted at 21 African countries with the highest level of transmission, to $89 million this fiscal year. In collaboration with other donors, we have relied on a comprehensive strategy that unites prevention and treatment approaches, including interventions to reduce malaria among pregnant women. Approximately 10 percent of our malaria budget is devoted to research on malaria vaccine, new and improved anti-malarial drugs, and improving prevention and treatment options.

To make USAID operations more efficient and transparent, our Business Transformation Initiative is standardizing and streamlining administrative systems and management tools, as well as implementing reforms in human resources, knowledge management, and strategic budgeting. These initiatives support USAID programs worldwide and strengthen the Agency's ability to manage and account for taxpayers' funds. We have now established an Executive Information System which facilitates reporting, and have substantially completed the worldwide rollout of Phoenix, a unified financial management system, which will be complete in early 2006.

Implementing the Joint State-USAID Strategic Plan has increased our administrative and policy coherence through the Joint Management and Joint Policy Councils. We have also created an Office of Military Affairs to improve our coordination with the Department of Defense, a fact that was crucial in our tsunami response and has reaped many benefits in Iraq and Afghanistan.

Ultimately, our success has been a direct result of the efforts of the foreign service officers, civil servants, and foreign service nationals (FSN), many of whom work on the front lines of foreign policy. Recognizing the need to improve our human resources department, we are offering new training and new opportunities for career development, especially for our FSNs. We have also begun training specialists who can be quickly mobilized during crises and hired new foreign service officers to deal with fragile states.

Last year USAID launched a branding campaign to credit U.S. taxpayers for the foreign assistance they finance. We developed a new standard graphic identity that clearly communicates the message that our aid is "From the American People." It is being used consistently on all programs, projects, activities, public communications, and commodities. Beginning in January 2006, all non-governmental organizations (NGO) and contractors will be required to use the new marking.

The roll-out of the new branding policy corresponded with the Agency's remarkable response to the Asian tsunami and together they produced a powerful and positive impact. Prior to the disaster, only 37 percent of the population had a favorable opinion of the United States. Afterwards, favorable opinions shot up to 66 percent. As Secretary of State Rice has said, USAID "is America's best public diplomacy."

In summary, I hereby certify that as of September 30, 2005, the management accountability and control systems of USAID provide reasonable assurance that the objectives of the Federal Managers' Financial Integrity Act (FMFIA) were achieved. This statement is based on the results of an Agency-wide management control assessment and input from senior officials. In addition, I certify that the financial and performance data in the FY 2005 PAR are reliable and complete. A detailed discussion of material inadequacies and actions that USAID is taking to resolve them is provided in this report.

Finally, this Performance and Accountability Report contains the Agency's performance information as required by the Government Performance and Results Act (GPRA); our audited consolidated financial statements as required by the Chief Financial Officers Act and the Government Management Reform Act (GMRA); a report on management decisions and actions in response to audit reports issued by the Agency's Inspector General as required by the Inspector General Act; and a report on our management controls as required by the FMFIA.

Andrew S. Natsios

Andrew S. Natsios
Administrator
U.S. Agency for International Development
November 15, 2005

ABOUT THIS REPORT

PURPOSE OF REPORT

The U.S. Agency for International Development's (USAID) Performance and Accountability Report (PAR) for fiscal year (FY) 2005 provides performance and financial information that enables Congress, the President, and the public to assess the performance of the Agency relative to its mission and stewardship of the resources entrusted to it. This PAR satisfies the reporting requirements of the following legislation:

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

FY 2005 USAID PERFORMANCE AND ACCOUNTABILITY HIGHLIGHTS

- For the third year in a row, the Agency received an unqualified ("clean") audit opinion from its independent auditors, attesting to its exemplary stewardship of the public funds entrusted to it.
- FY 2005 is the second year in which USAID's PAR is structured around a streamlined and cohesive set of strategic objectives, strategic goals, and performance goals that were established jointly between the Department of State and USAID in the Joint State-USAID Strategic Plan for FY 2004 – 2009.
- For the second consecutive year, the Agency is presenting provisional or preliminary performance results information for the fiscal reporting year just ended (FY 2005), rather than prior year results data as it has been forced to do in the past, due to the data lag associated with the Agency's Annual Report performance management system prepared by each of its operating units. This information has been collected from and vetted by its Regional, Pillar, and Functional Bureaus.
- Also for the second time, USAID will supplement the preliminary FY 2005 performance results information contained in this report with a FY 2005 USAID PAR Addendum (Addendum), which will be available in the Spring of 2006. The Addendum will contain all final, verified, and validated performance results against the Agency's goals, indicators, and targets for FY 2005, and will be made available in hard-copy format and electronically. For more information on the Addendum, please contact USAID's Office of Strategic and Performance Planning at (202) 712-0175.

HOW THIS REPORT IS ORGANIZED

- MESSAGE FROM THE ADMINISTRATOR, USAID

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

- MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

The MD&A is a concise overview of the entire report, similar to an Executive Summary in a private company's annual report. It includes an organizational overview; a summary of the most important performance results and challenges for FY 2005; a brief analysis of financial performance; a brief description of systems, controls, and legal compliance; and information on the Agency's progress in implementing the President's Management Agenda (PMA) and addressing the management challenges identified by the Office of Inspector General (OIG). The MD&A is supported and supplemented by detailed information contained in the Performance Section, Financial Section, and Appendices.

- PERFORMANCE SECTION

This section contains the annual program performance information required by the GPRA, and combined with the MD&A and Appendices, includes all of the required elements of an annual program performance report as specified in the Office of Management and Budget (OMB) Circular A-11, *Preparing, Submitting and Executing the Budget*. The results are presented by strategic goal, with a chapter covering each of USAID's eight strategic goals from the Joint State-USAID Strategic Plan for FY 2004 – 2009. For more information on this section, please contact USAID's Office of Strategic and Performance Planning at (202) 712-0175.

- FINANCIAL SECTION

This section contains a message from the Chief Financial Officer (CFO) describing progress and challenges pertaining to the Agency's financial and performance management, including information on the Agency's compliance with laws and regulations, the Agency's financial statements and related Independent Auditor's Report, and other Agency-specific statutorily required reports pertaining to the Agency's financial management. For more information on this section, please contact the office of the CFO at (202) 712-1980.

- APPENDICES
  - USAID Staff Listings by Type
  - Global Development Alliance (GDA) Secretariat
  - USAID Data Estimation Methodology
  - Glossary of Terms
  - Abbreviations and Acronyms

Management's Discussion And Analysis

Alleviating Poverty Through Economic Growth

SILENT TSUNAMI

POVERTY

More Than Half The World Lives On Less Than A Dollar A Day

USAID programs support: Microfinance, Market Reform, Market Stability, Job Creation, Technology Transfer, Trade Promotion, WTO Ascension, Global Trade and Investment, Economic Policy and Governance, Private Enterprise Development, Economic and Social Infrastructure, Agricultural Productivity, and Asset Protection for the Poor.

MISSION AND VALUES

MISSION

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

VALUES

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

Character: Maintenance of high ethical standards and integrity.

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

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

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

USAID HISTORY

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

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

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

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

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

"We are revitalizing our cutting-edge technical leadership and reforming critical business operations. We have integrated our emergency, transition, and food operations into a single capacity to respond to failing states, complex crises, and postconflict reconstruction, and augmented it with a new conflict mitigation and management focus."

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

The end of the Cold War and the new international challenges that now face the United States have prompted the most thorough reassessment of the country's development mission since the end of the Second World War. As part of this reassessment, USAID has embraced five core operational goals:

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

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

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

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

Fragile states present a leading threat to U.S. national security in the 21st century; one clearly recognized in the 2002 National Security Strategy. Strengthening fragile states emerged as a discrete category among the five operational goals identified in USAID's White Paper, *U.S. Foreign Aid: Meeting the Challenges of the Twenty-First Century*. Although USAID has worked in fragile states for decades, it had treated them much the same as countries on a development path. The Agency recognized the need to do business differently in such environments for which it has formulated a new and separate strategy. Fragile states include those that are failing, failed, and recovering where conditions are not viable for long-term development. Hence, the purpose of USAID assistance in fragile states is to advance recovery to a point where development progress is possible. Stabilization efforts, support for reform, and capacity development are priorities in such environments. Basic security and strengthening essential institutions provide the cornerstones for recovery.

In order to assist fragile states more effectively:

- USAID will establish an early warning system using sound criteria and thresholds and bolster its capacity to respond quickly. Need, vulnerability to instability, and conflict, as well as policy performance will be core to designating a state as fragile.

USAID delivers aid to Pakistan. PHOTO: USAID/ANE

- The Agency will analyze the nature and sources of fragility. USAID will analyze effectiveness and legitimacy along four key dimensions—security, political, economic, and social—and the motivations and objectives of key actors in order to understand the critical points of vulnerability. USAID assistance will target the sources of fragility, and where necessary, address the symptoms.
- USAID will apply the principle of selectivity. Assistance will be directed to states based on foreign policy importance and the ability to contribute to constructive change.

Fragile states present an inherently risky challenge. The best analysis, skilled assistance personnel, and generous resources will not necessarily be able to pre-empt failure: the primary responsibility for that remains within the country itself. Moreover, among outside actors, USAID cannot meet the challenge of fragile states alone. The Agency has taken the lead by developing its Fragile States Strategy which now provides the foundation for a coherent U.S. government response. In addition, USAID, together with the Department for International Development (DFID) and the Low Income Countries Under Stress (LICUS) group at the World Bank, is actively promoting a concerted response with other donors and international actors to the challenge posed by fragile states based on its new strategy. Complementary engagement by national and international actors offers the greatest potential to arrest or mitigate a country's slide into failure.

Supporting U.S. geo-strategic interests. Aid is an important component of U.S. foreign assistance, while countries strive to win their own battles against terrorism. The tasks today are broader and more demanding than just winning the allegiance of key leaders around the world. For example, while it is vital that the U.S. government help keep a nuclear-armed Pakistan allied with the United States in the war on terrorism, the United States must also help Pakistanis move toward a more stable, prosperous, and democratic society. USAID's support for reform of Pakistan's educational system and political institutions is critical in this regard.

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

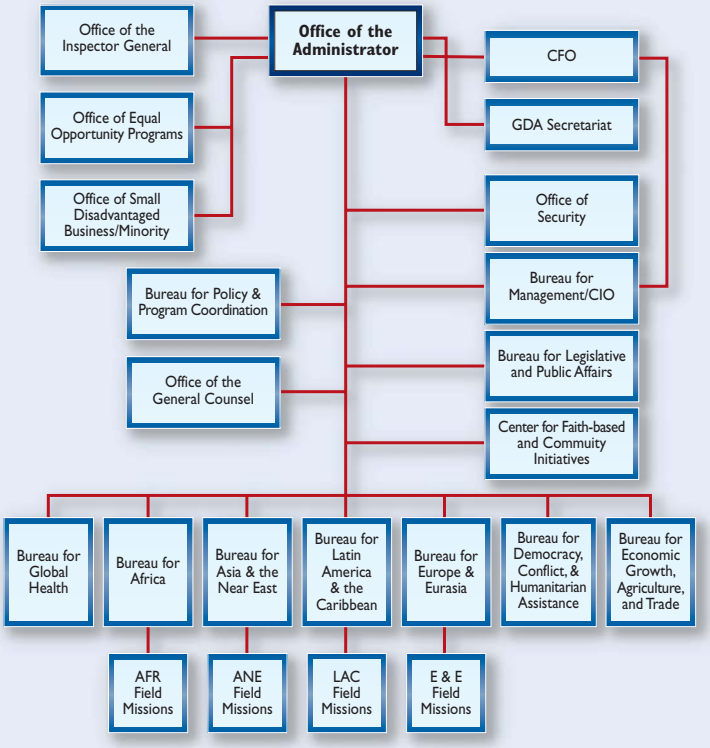
Providing humanitarian relief in crisis countries. The United States has always been a leader in humanitarian aid and disaster relief. The United States is the largest contributor of food aid that has fed the hungry and combated famine around the world. This is a moral imperative that has not changed.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

OUR ORGANIZATION

ORGANIZATIONAL STRUCTURE IN WASHINGTON, D.C.

At its Washington, D.C., headquarters, USAID's mission is carried out through four regional bureaus: Africa, Asia and the Near East (ANE), Latin America and the Caribbean (LAC), and Europe and Eurasia (E&E). The regional bureaus are supported by three technical (or pillar) bureaus that provide expertise in democracy promotion, governance accountability, humanitarian assistance in times of crisis, economic growth incentives, trade opportunities, agricultural productivity and technology, and global health challenges such as maternal and child health and HIV/AIDS. The Bureau for Policy and Program Coordination provides overall policy guidance and program oversight. The Bureau for Management administers a centralized support services program for the Agency's worldwide operations. The Bureau for Legislative and Public Affairs develops and implements outreach programs to promote understanding of USAID's missions and programs. The secretariat for the Global Development Alliance (GDA) operates across the four regional bureaus to support the development of public-private alliances. USAID also includes five offices that support the Agency's security, business, compliance, and diversity initiatives. It also maintains a Center for Faith-Based and Community Initiatives.

USAID ORGANIZATION CHART



ORGANIZATIONAL STRUCTURE AT MISSIONS AND OTHER LOCATIONS

USAID organizational units located overseas are known as "field missions." Full missions usually consist of nine to 15 U.S. direct-hire (USDH) employees. They conduct USAID's major programs worldwide, managing a program of four or more strategic goals. Medium missions (five to eight USDH) manage a program of two to three goals, and small missions (three to four USDH) manage one or two strategic goals. These missions provide assistance based on an integrated strategy that includes clearly defined program objectives and performance targets.

Regional support missions (typically 12 to 16 USDH), also known as regional hubs, provide a variety of services. The hubs retain a team of legal advisors, contracting and project design officers, and financial services managers to support small and medium-sized missions. In countries without integrated strategies, but where aid is necessary, regional missions work with non-governmental organizations (NGO) to implement programs to facilitate the emergence of a civic society, help alleviate repression, meet basic human needs, or enhance food security. Regional missions can also have their own bilateral program of strategic goals to manage.

NEW MILITARY OFFICE TO IMPROVE COOPERATION IN AID DELIVERY

USAID has created an office to coordinate with the U.S. armed forces on development issues, following close Agency-military cooperation in a series of operations in Afghanistan, Iraq, and countries affected by the Asian tsunami. The Office of Military Affairs, created March 25, 2005, lies within the Bureau for Democracy, Conflict, and Humanitarian Assistance (DCHA), and addresses the need for greater understanding and operational interaction between the two sectors. The office will develop training, education, and operational programs designed to improve communications between USAID and the U.S. military. It will develop guidance, policy, and military doctrine to improve coordination and cooperation. It will also build planning, operations, and evaluation links that aim to inform and enhance field operations, addressing areas of common interest.

Distribution of USAID aid by military forces in Indonesia after the tsunami. PHOTO: AP/WORLD WIDE PHOTOS

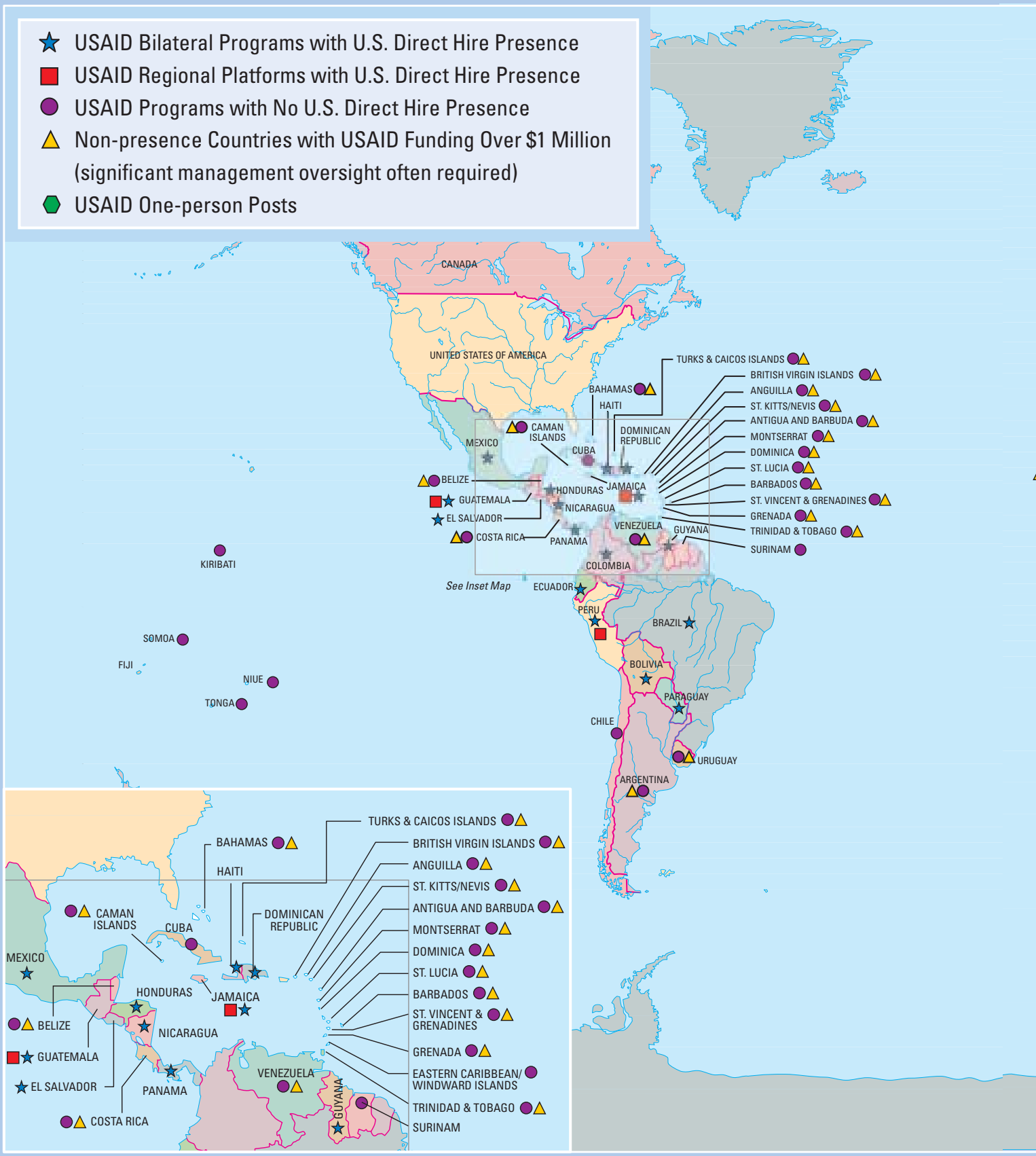
USAID missions operate under decentralized program authorities, allowing them to design and implement programs and negotiate and execute agreements. Mission directors and principal officers are delegated authority to:

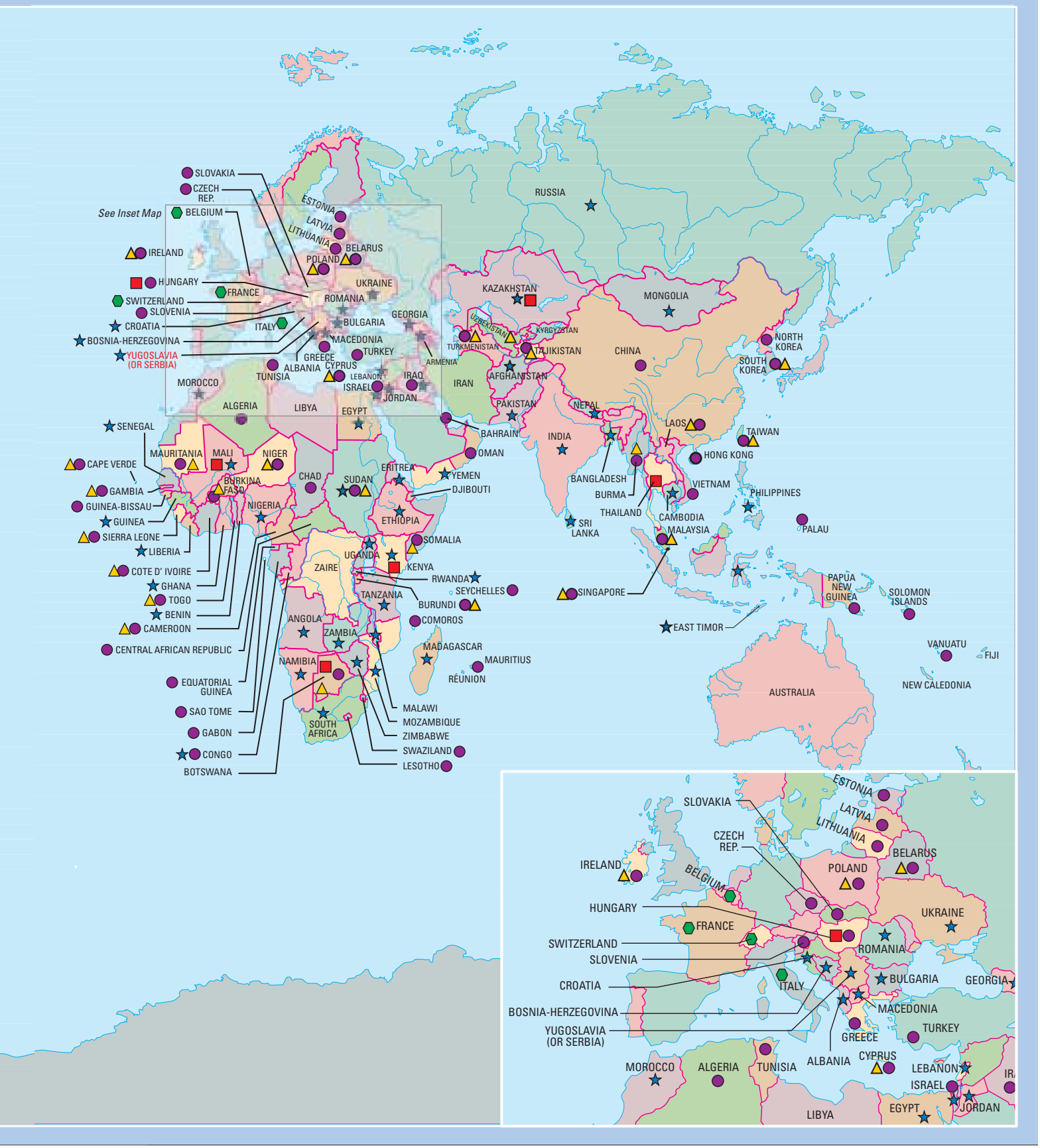
- conduct strategic planning and develop country strategic plans
- coordinate with other U.S. government agencies
- waive source, origin, and nationality requirements for procurement of goods and services
- negotiate, execute, and implement food aid agreement
- implement loan and credit programs.

The director of USAID's Office of Acquisitions and Assistance issues warrants to contracting officers authorizing them to negotiate, execute, amend, and modify contracts, grants, and cooperative agreements. Executive officers are delegated authority to sign leases for real property.

The field mission workforce is typically composed of three major categories of personnel: USDH employees, U.S. personal services contractors (USPSC), and foreign service nationals (FSN). USDH are career foreign service employees assigned to missions for two- to four-year tours. USPSCs are contractors hired for up to five years to carry out a scope of work specified by USAID. FSNs, professionals recruited in their host countries by USAID, make up the core of the USAID workforce. Many FSNs, recognized leaders and experts in their fields, devote their careers to USAID. FSNs are the bridge to effective contacts with key host country officials and decisionmakers, and they provide the institutional memory for and continuity of USAID's country programs. The U.S. ambassador serves as the chief of mission for all U.S. government agencies at post, and the USAID director reports to the ambassador. Development, defense, and diplomacy are the three major components of the U.S. national security strategy. USAID, as the lead agency responsible for development planning and programming, thus plays a critical and lead role in the foreign policy arena. The USAID mission director is a key member of the country team, and is often called upon to stand in for the ambassador or the deputy chief of mission during their absences.

USAID Locations




See Inset Map
SLOVAKIA
CZECH REP.
BELGIUM
IRELAND
HUNGARY
FRANCE
SWITZERLAND
SLOVENIA
CROATIA
BOSNIA-HERZEGOVINA
YUGOSLAVIA (OR SERBIA)
ESTONIA
LATVIA
LITHUANIA
BELARUS
POLAND
UKRAINE
ROMANIA
BULGARIA
ITALY
MACEDONIA
GREECE
TURKEY
ALBANIA
CYPRUS
TUNISIA
MOROCCO
ALGERIA
LIBYA
EGYPT
LEBANON
ISRAEL
JORDAN
IRAQ
IRAN
ARMENIA
GEORGIA
RUSSIA
KAZAKHSTAN
UZBEKISTAN
KYRGYZSTAN
TURKMENISTAN
TAJIKISTAN
AFGHANISTAN
PAKISTAN
MONGOLIA
CHINA
NORTH KOREA
SOUTH KOREA
NEPAL
INDIA
BAHRAIN
OMAN
YEMEN
DJIBOUTI
ERITREA
SUDAN
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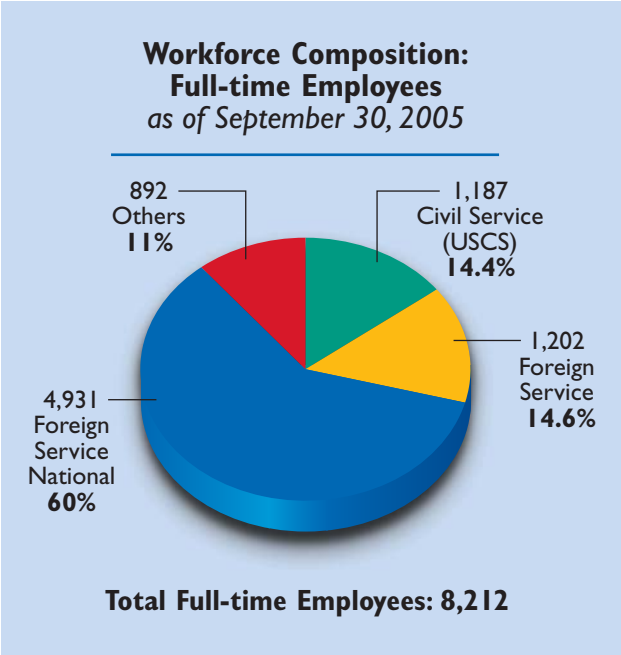
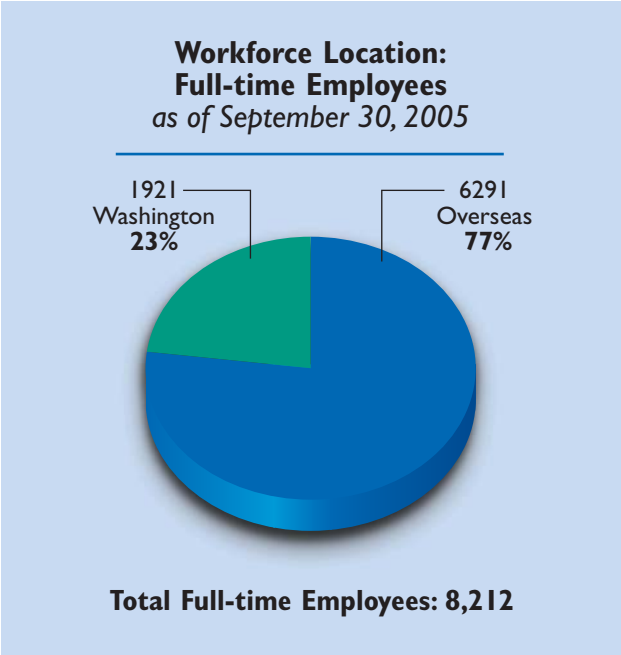
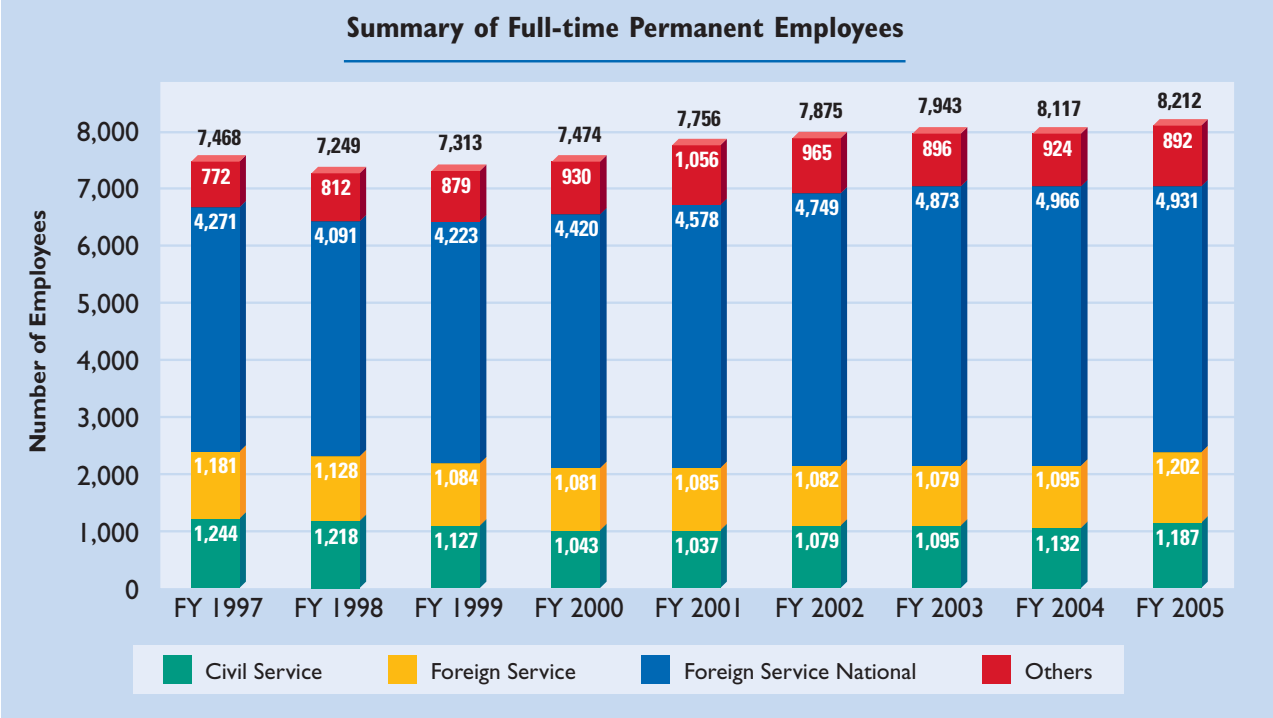
COMOROS
MADAGASCAR
MAURITIUS
RÉUNION
ANGOLA
ZAMBIA
NAMIBIA
SOUTH AFRICA
MALAWI
MOZAMBIQUE
ZIMBABWE
SWAZILAND
LESOTHO
BOTSWANA
SENEGAL
CAPE VERDE
GAMBIA
GUINEA-BISSAU
GUINEA
SIERRA LEONE
LIBERIA
COTE D' IVOIRE
GHANA
TOGO
BENIN
CAMEROON
CENTRAL AFRICAN REPUBLIC
EQUATORIAL GUINEA
SAO TOME
GABON
CONGO
MAURITANIA
MALI
NIGER
BURKINA FASO
CHAD
NIGERIA
LAOS
TAIWAN
HONG KONG
VIETNAM
PHILIPPINES
BANGLADESH
BURMA
THAILAND
CAMBODIA
MALAYSIA
SRI LANKA
PALAU
SINGAPORE
EAST TIMOR
PAPUA NEW GUINEA
SOLOMON ISLANDS
VANUATU
FIJI
NEW CALEDONIA
AUSTRALIA

USAID'S PEOPLE

USAID's workforce consists of more than 8,200 employees in the foreign service, civil service, those serving as foreign service nationals, and those in other employee categories, including employees detailed from other U.S. government agencies, personal service contractors, and fellows. As the table indicates, foreign service nationals make up 60 percent of USAID's workforce, and 77 percent of the total workforce serves overseas.







MANAGEMENT INITIATIVES

BUSINESS TRANSFORMATION AT USAID

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

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

During fiscal year (FY) 2005, USAID made substantial progress in meeting the goals of its business transformation – a multi-year, multi-step plan to reform the Agency's management systems and improve organizational performance. The plan has been designed to address the President's Management Agenda (PMA), the Administrator's Management Reform Principles, and the Management and Organizational Excellence strategic and performance goals of the Joint State-USAID Strategic Plan.

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

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

USAID AND DEPARTMENT OF STATE WORKING TOGETHER – EFFECTIVELY AND EFFICIENTLY

"[USAID] is the epitome of what I call transformative diplomacy . . . our job is to be a partner with young democracies and close the gap between capability and expectation."

– Dr. Condoleezza Rice
Secretary of State

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

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

The Joint Policy Council is ensuring that development programs are fully aligned with foreign policy goals. An Executive Committee and 12 working groups, led by senior Department of State and USAID officials, are addressing ways to improve coordination on key policy and program issues. The working groups cover the six world regions represented by the geographic bureaus and the following functional areas: Democracy, Human Rights, and Justice; Economic Growth; Humanitarian Response; Social and Environmental Issues; Security and Regional Stability; and Public Diplomacy. There are also three crosscutting issue working groups: Foreign Assistance Effectiveness, Outreach to the Muslim World, and Law Enforcement Issues.

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

THE PRESIDENT'S MANAGEMENT AGENDA

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

– President George W. Bush

USAID has made significant progress in its business transformation and this has been reflected in the Agency's progress and status scores on each of the government-wide initiatives in the President's Management Agenda (PMA). Issued quarterly by the OMB, an Executive scorecard rates progress and overall status in each of the PMA initiatives using a color-coded system for all federal agencies. As of September 30, 2005, USAID achieved five "green" scores and one "yellow" score for progress in achieving the OMB-developed, government-wide criteria and remains "red" in status for four of the six initiatives. The Agency currently has "yellow" status scores for Human Capital, Budget and Performance Integration, and the PMA Agency-specific Faith-Based and Community Initiative. A score card for Real Property will be tracked beginning in FY 2006. The following is a summary of USAID's overall progress towards achieving the goals of the PMA during FY 2005. The progress and status scores below are as of September 30, 2005.

PROGRESS	USAID STRATEGIC MANAGEMENT OF HUMAN CAPITAL	STATUS

Goal

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

Progress

- Reduced skill gaps through Human Capital (HC)/workforce strategies and began integrating competitive sourcing and E-Gov into strategies.
- Completed information technology (IT) competency gap assessment and developed plan to identify and close gaps.
- Developed plan to use redeployment and de-layering for adjustment of Headquarters (HQ)/field organizational structures based on workforce analysis model.
- Submitted request for 2005 Senior Executive Service (SES) provisional plan certification.
- Showed results of improved succession strategies.
- Contracted for diversity study.
- Analyzed Federal Human Capital Survey (FHCS) and communicated results to employees. Posted results of FHCS on Agency Web site.

Continued on next page

PROGRESS

USAID STRATEGIC MANAGEMENT OF HUMAN CAPITAL *Continued*

STATUS

Upcoming Actions

- Complete and demo refinements to the workforce planning model.
- Develop HQ/Workload assessment tool.
- Implement redeployment and de-layering to optimize HQ/field organizational structures.
- Complete draft SES performance plan enhancements.
- Demonstrate continued results in closing skill and competency gaps.
- Provide the Agency's diversity action plan.
- Ensure Agency accountability plan incorporates the FHCS criteria and results.
- Evaluate General Service (GS) performance system using Office Personnel Management (OPM) tool. Identify beta site and develop implementation schedule to test system to link pay to the performance appraisal system and awards program.
- Plan with OPM to conduct review of Agency accountability system and use results to strengthen HC results.
- Prepare briefing on working towards "Rightsizing Strategy."
- Hold discussions with the Office of Management and Budget (OMB) and the Department of State's Office of Rightsizing.

PROGRESS

IMPROVED FINANCIAL PERFORMANCE

STATUS

Goal

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

Progress

- Closed two remaining Integrity Act weaknesses.
- Took actions to support closure of one of one auditor weakness.
- Completed prior year data clean-up from the Latin America and the Caribbean (LAC) Phoenix deployment.
- Completed deployment of Phoenix to the missions in LAC and Europe and Eurasia (E&E).

Upcoming Actions

- Issue FY 2005 PAR on time.
- Receive unqualified audit opinion on all financial statements for FY 2005.
- Compile action plan to address any auditor material weaknesses, reportable conditions, or material non-compliances identified in FY 2005 Government Management Reform Act (GMRA) audit report.
- Have no chronic or significant Anti-Deficiency Act violations.
- Deploy Phoenix to the missions in Asia Near East (ANE) and Africa.
- Complete move of Phoenix production operations to the Department of State facility in Charleston, SC.
- Brief OMB on current progress and plan for completing move to Object Class Coding (OCC) program funds.

PROGRESS

BUDGET AND PERFORMANCE INTEGRATION

STATUS

Goal

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

Progress

- Results of the Human Capital Model incorporated into the Bureau Program Budget Submission (BPBS) review materials, at the country and mission level.
- All bureaus completed the analysis that incorporates marginal cost data into their reviews of FY 2007 budget submissions.
- Program Assessment and Rating Tool (PART) results and final scores uploaded into PARTWeb, appeals filed and resolved, and Agency recommendations negotiated and resolved with OMB.
- Supporting documentation of the incorporation of performance into budget formulation included in the Annual Budget Submission (ABS).
- Fully institutionalized the process of collecting, analyzing, and reporting on performance information generated by the quarterly monitoring process.

Upcoming Action

- Incorporate comments into draft Marginal Cost Report.
- Summarize and include in the MD&A portion of the FY 2005 PAR, PART ratings and programmatic impacts.
- For all completed PARTs, submit status on follow-up actions and propose new follow-up actions.
- Propose programs to be assessed under PART in FY 2006, and certify that 100% of programs will now have been PARTed, or exempted by OMB.
- Develop applicability of common performance indicators for previously PARTed programs, evaluate for use in new PARTed programs, document planned use.
- Formalize and communicate accountability plan for bureau and mission submission of performance data.
- Submit first rough draft of Shadow Budget plan.

PROGRESS

COMPETITIVE SOURCING

STATUS

Goal

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

Progress

- Completed feasibility study for building services.
- Alternative approaches for grouping B-positions discussed with the Competitive Sourcing Working Group (CSWG). Discussions were undertaken with the Department of Transportation (DOT) (a green Competitive Sourcing (CS) agency) and USAID will consider a Line of Business (LOB) strategy in FY 2006 based on a DOT proof of concept.

Upcoming Action

- Announce competition for building services.
- Develop and approve "soft landing" policies as needed for possible impacts on direct-hires affected by competition.
- Meet with OMB on options for grouping activities for competition.
- Update CS strategic plan as needed to track to OMB approved 2005 inventory, and results of discussions with OMB.
- Issue call for 2006 inventory preparation.

PROGRESS

EXPANDED ELECTRONIC GOVERNMENT

STATUS

Goal

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

Progress

- Drafted USAID Earned Value Measurement System (EVMS) Policy document.
- Finalized EVMS Process Surveillance Group Draft Charter.
- Developed EVMS system description.
- Completed applicable OMB-approved E-Gov/LOB/SmartBuy Implementation and Alignment Plans.
- Delivered an update on the Joint State-USAID enterprise architecture (EA) effort.
- USAID and the Department of State developed a joint EA communications strategy promoting enterprise architecture.
- Completed data analysis of existing Agency grant forms per guidance provided in the Grants.gov Guide for Data Analysis and Form Development.
- Posted >25% of all discretionary grant application packages on Grants.gov, including all discretionary grant programs using only the SF-424 family of forms.

Upcoming Action

- Provide baseline of the Agency's EA.
- Identify gaps in performance measures and areas of duplication by utilizing the mapping of architectural layers and the Federal Enterprise Architecture (FEA) reference model. Provide report to OMB and Geospatial One-Stop identifying all grant programs related to geospatial information.
- Provide report to OMB and E-Authentication identifying all existing and planned Web-based systems requiring electronic authentication.
- Demonstrate Integrated Portfolio Level EVMS in Lab Environment.
- Provide Grants.gov an outreach plan for discretionary grant programs.

PROGRESS

FAITH-BASED COMMUNITY INITIATIVE

STATUS

Goal

Identify and remove the inexcusable barriers that thwart the work of faith-based and community organizations.

Progress

- Staff visited Uganda and Ethiopia missions, key countries in pilot projects, to conduct outreach on the Initiative.
- Outreach workshop delivered in Denver (September 13-15) with potential partners.
- Launched fifth of five planned pilot projects after receiving final clearance from the Department of State (Global AIDS Coordinator), Health and Human Services (HHS), and USAID Global Health Bureau.
- Completed comprehensive evaluation of CORE Initiative pilot program, and provided interim reports on four other pilots.
- USAID General Counsel wrote a guidance memo on the strategy for addressing potential violations of the new equal treatment regulation and confirmed that no complaints alleging violations have been received to date.
- Secured funding and support for data collection.
- Reviewed end- of-FY 2005 reporting plan and confirmed that requirements can be met.
- Established plan for enhanced FY 2006 data collection.

Upcoming Action

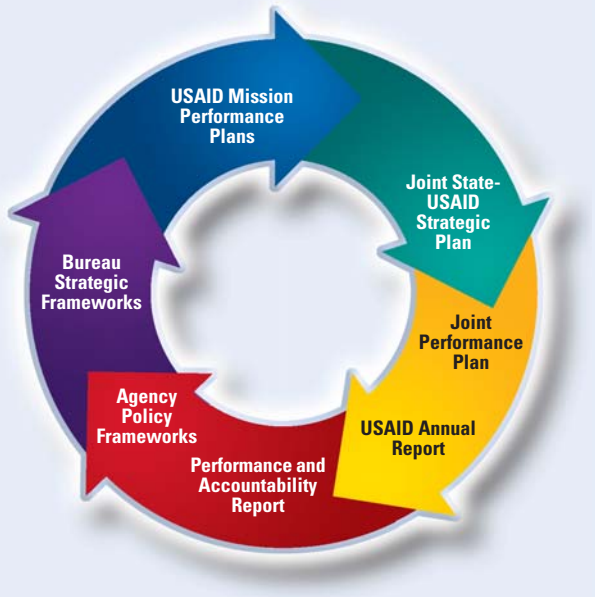
- Draft Annual Report for FY 2005 summarizing actions to date and barriers removed.
- Expand technical assistance workshops in cooperation with White House regional conferences.
- Complete FY 2005 data reporting using new systems and resolve any outstanding gaps in collection.
- Provide interim quarterly reports on pilot programs.
- Continue regular monitoring on regulation compliance.

HOW WE MANAGE AND MEASURE PERFORMANCE

PERFORMANCE MANAGEMENT - A LEADERSHIP PRIORITY

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

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



USAID MISSION PERFORMANCE PLANS (MPP)

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

USAID PERFORMANCE MANAGEMENT PLANNING PROCESS

The Planning Process	USAID
Step #1 **Mission Plans** *Winter/Spring*	Each of USAID's missions prepares a Strategic Plan identifying key objectives, performance targets, and resource requirements covering a five-year range. Every year an Annual Report (AR) recaps the progress made by the missions in the year just passed, and outlines resource requirements for the year ahead. Information from the AR feeds into an overall MPP, which takes into account both USAID and Department of State activities. These plans are forwarded upward for review by USAID bureaus and by the Bureau for Policy and Program Coordination.
Step #2 **Bureau Plans** *Spring/Early Summer*	After the AR process is completed, each of USAID's regional and functional bureaus prepares a Bureau Program and Budget Submission (BPBS) laying out goals, targets, and resource requirements for the coming year. The BPBS documents are forwarded upward for review by Agency Assistant Administrators (AA).
Step #3 **Agency Plans**	Using the planning and performance information contained in the BPBS, together with other related information available at the national and international levels, USAID and the Department of State develop a coordinated Joint Performance Budget (Plan). This budget focuses on the highest priority issues facing both agencies, and is consistent with the Joint State-USAID Strategic Plan.

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

- *FY 2004-2009 State-USAID Strategic Plan: http://www.state.gov/m/rm/rls/dosstrat/2004/*

OUR CURRENT SYSTEM AND OUR PLANS FOR THE FUTURE

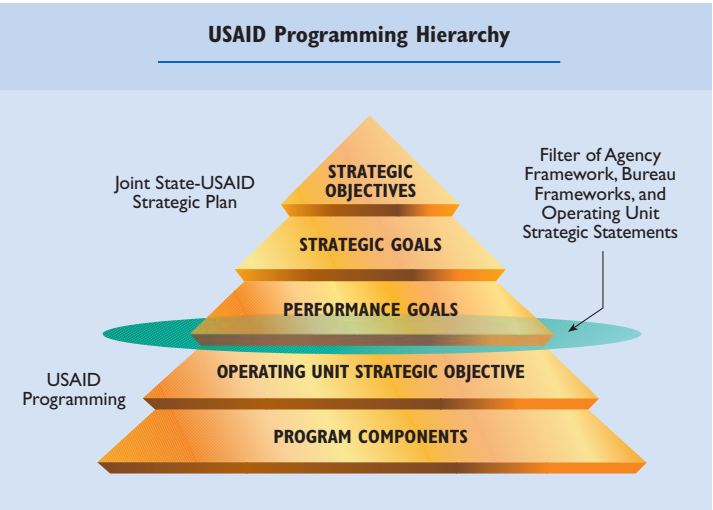
USAID must set targets and measure results at various levels, including Agency, bureau, and country/mission, and in varying country contexts ranging from failed states to those that are near graduation. The Joint State-USAID Strategic Plan presents the overarching construct for managing and measuring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

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

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

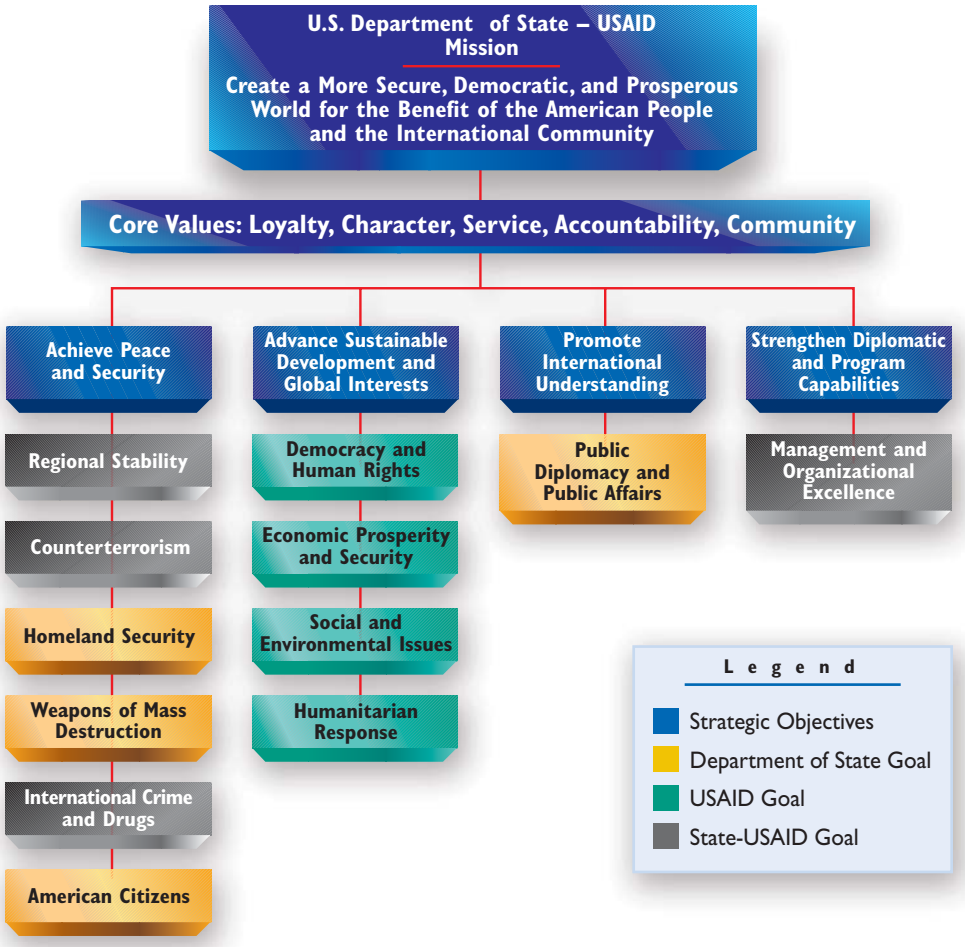
HOW WE ASSESS PERFORMANCE

FIVE-TIERED METHODOLOGY



The Agency is committed to utilizing the funds it receives from taxpayers through Congress to produce successful results. To do this, USAID employs the programming structure depicted in the pyramid to the left. Each layer represents a more detailed breakout of the programs USAID implements. USAID employs performance indicators in several layers. At levels covered by the Joint State-USAID Strategic Plan, outcome level indicators are used to measure progress towards joint goals. At the USAID operating unit level, individual indicators tailored to the mission specific development context are used to monitor progress. At the program component level, common indicators across operating units are used to measure Agency performance.

JOINT STATE-USAID STRATEGIC PLAN



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

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

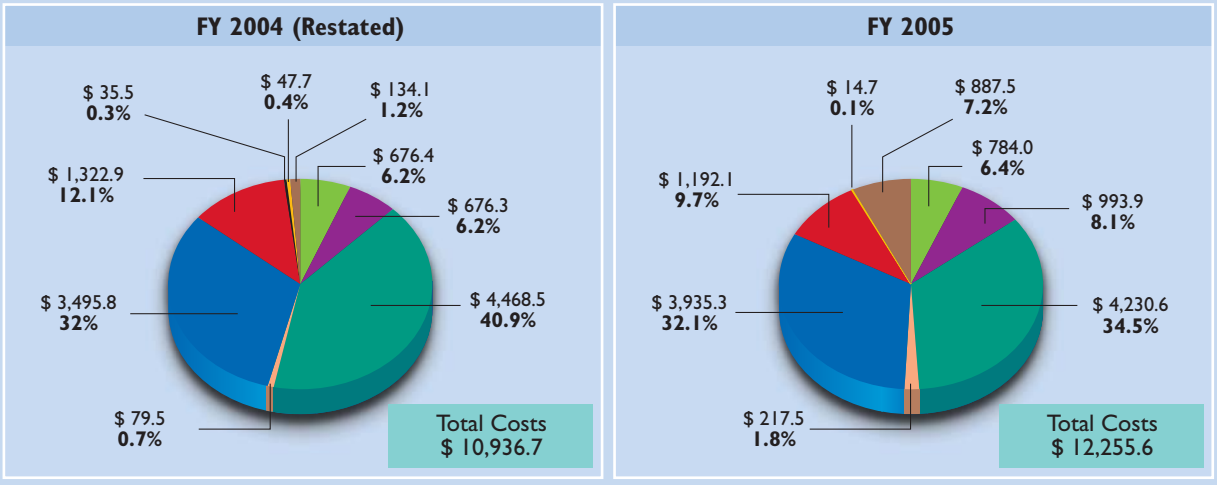
STRATEGIC PLANNING FRAMEWORK

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

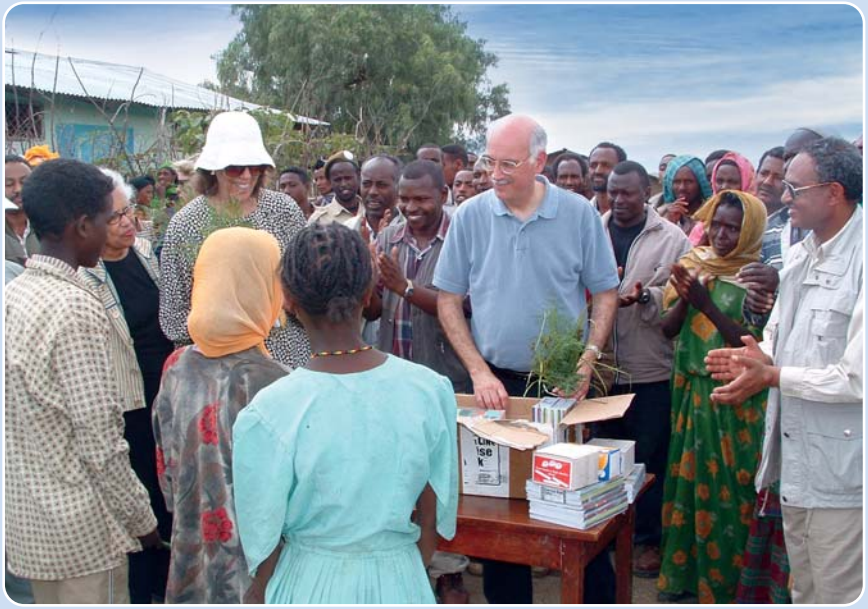
AGENCY STRATEGIC OBJECTIVES AND STRATEGIC GOALS

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

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



- Strategic Goal 1: Regional Stability
- Strategic Goal 2: Counterterrorism
- Strategic Goal 3: International Crime and Drugs
- Strategic Goal 4: Democracy and Human Rights
- Strategic Goal 5: Economic Prosperity and Security
- Strategic Goal 6: Social and Environmental Issues
- Strategic Goal 7: Humanitarian Response
- Strategic Goal 8: Management and Organizational Excellence
- Public Diplomacy and Public Affairs (Effective for FY 2004 only)



USAID Administrator Natsios, accompanied by the U.S. Ambassador to Ethiopia, Aurelia Brazeal, donates school kits to students at Medicho Elementary School located in the drought affected area of Ethiopia.

PHOTO: USAID

PERFORMANCE SUMMARY AND HIGHLIGHTS

"Your [USAID] efforts and the efforts of others, especially to create jobs, promote markets, improve health, fight HIV/AIDS, and help democracy take root are instrumental to making the world a better place and to protecting the American people."

– President George W. Bush

USAID finds itself at a most critical time in the history of international development and foreign assistance. September 11, 2001, served to accelerate the nation's awareness of how development is an essential element of national security, along with diplomacy and defense. In September 2002, President Bush unveiled his National Security Strategy to address the unprecedented challenges that are facing the nation. It outlined the new direction in foreign policy that was required to respond effectively to what occurred the previous September. Among the tools that would be engaged in the new strategy is an emphasis on development. Indeed, development was elevated as a third pillar of U.S. foreign policy, along with defense and diplomacy. This new role requires USAID to acknowledge that its mission is now broader than the traditional humanitarian and development response. The Agency is increasingly challenged to address the crisis of failed states, transnational problems, and geo-strategic issues. USAID addresses many development issues that may threaten national security, such as widespread and persistent world poverty; the growing menace of global terrorism and transnational crime; the integration of global communications and markets; and the surge of HIV/AIDS and other infectious diseases, weak and failed states, and complex emergencies. The programs of USAID in economic growth, democracy, agriculture, health, and education tackle these development challenges. USAID programs present a win-win situation for the United States, providing strong examples of the use of "soft power" while assisting many nations to meet their own development needs and priorities.

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

During the Tsunami and the reconstruction efforts in Iraq and Afghanistan, USAID was there and stood as a pillar in the development aid and assistance community. USAID's responsiveness to the devastation, both physical and psychological, caused by the Tsunami, and USAID's dedication to democracy in Iraq and Afghanistan is a testament of USAID's commitment to assist people in reclaiming their hopes and foster stable societies.

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

USAID's rising profile in U.S. foreign policy initiatives can be measured in budgetary terms. The commitment to the Agency has been substantial and growing as it administers funds from a number of Foreign Affairs accounts. In FY 2005, for example, the Agency administered nearly $11.32 billion portfolio (including supplemental funds for Iraq), which is up from $7.93 billion in FY 2001. The Agency is proud of this vote of confidence and anxious to make good on its daunting responsibilities.

IRAQ TOP TEN ACHIEVEMENTS

1. **For the first democratic elections in more than 50 years**, USAID trained election monitors, provided logistical assistance to the Independent Election Commission of Iraq, and trained political parties.

2. **Assisted Iraq in meeting requirements for more than $27 billion in debt forgiveness** and $480 million in new credit from the International Monetary Fund (IMF).

3. **Assistance to the constitutional drafting process:** USAID assisted the Constitutional Drafting Committee regarding systems of representation, constitutional referenda, and electoral law. USAID is also conducting public awareness and participation campaigns to encourage civic engagement in the constitutional process.

4. **Provided between 30,000 and 50,000 short-term jobs weekly and created tens of thousands of long-term jobs:** The Community Action Program and Office of Transition Initiatives have employed between 30,000 and 50,000 Iraqis in reconstruction efforts every month and these programs, along with USAID's Economic Growth initiatives, have created tens of thousands of new long-term jobs.

Iraqi workers carry out renovation of the Al-Doura power plant in Baghdad, Iraq. USAID is funding the repair of Iraq's nationwide electrical system.

PHOTO: THOMAS HARTWELL

5. **Started the process for Iraq's accession into the World Trade Organization (WTO):** Assisted the government of Iraq in submitting its formal request to enter into the WTO and provided policy support for Iraq to meet WTO requirements. Trade liberalization fosters economic growth while WTO ascension will open up new markets for Iraq.

6. **Investing in Iraqi schools:** Since starting work in Iraq, USAID has provided 8.7 million math and science text books, rehabilitated 2,529 schools, and trained more than 36,000 teachers. These programs are ongoing. UNESCO subsequently provided more than 20 million text books

7. **Rebuilding Iraq's electrical sector:** As of September 1, 2005, USAID added 855 megawatts of new capacity to the electrical grid. By the end of 2005, the total capacity contributed to the grid through USAID projects is expected to be more than 1,600 megawatts.

8. **Supporting women's engagement in political and economic life of Iraq:** USAID is working with female politicians in the Iraqi National Assembly, female journalists, NGOs, and community organizations that advocate for women's interests, and providing them with training in constitutional drafting skills, advocacy efforts, and developing legislative platforms. Also, nearly 60 percent of the small business development grants administered by USAID have been awarded to women.

9. **Community development:** USAID facilitated the creation of more than 670 Community Action Groups in 17 governorates. More than 1,966 projects worth $92 million have been completed or are in development. The Iraqi communities have committed approximately $23 million in resources for projects in their communities.

10. **Developing the private sector:** USAID brought more than 28,000 businesses into the formal sector. Trained lending officers in microfinance best practice.

TSUNAMI TOP TEN ACHIEVEMENTS:

1. **Within hours of the tsunami,** U.S. and other aid groups began sending food, water, plastic sheeting, and medicine.
2. **Aid agencies and militaries** worked together to deliver aid and evacuate the injured.
3. **Fast aid prevents epidemics** by monitoring, preventing, and treating communicable diseases.
4. **One million people sheltered** in schools, mosques, and temples. Built temporary shelters for tens of thousands of people.
5. **Stricken nations coordinated** foreign aid, local medical teams, Red Cross societies, NGOs, and military forces.
6. **Cash-for-Work programs** cleaned up wreckage, employed tens of thousands of displaced people, and jumpstarted recovery.
7. **Clean water produced** on U.S. military ships, delivered by helicopters; purification kits given to thousands.
8. **Trained trauma counselors.** Psychiatrists trained teachers, community leaders, and clerics to help counsel thousands of grieving children.
9. **Registered, protected children.** U.S. aid assured safety of orphans, reopened schools.
10. **Planning major reconstruction** has begun. Some $6 billion pledged for roads, ports, electricity, schools, and housing.

Three tsunami affected siblings happily peek through a discarded window frame outside their new transitional home in Sri Lanka.

PHOTO: USAID/GEMUNU AMARASINGHE

AFGHANISTAN TOP TEN ACHIEVEMENTS

1. **Two peaceful, democratic elections held.** In October 2004, 7.3 million Afghans (40 percent female) voted in Presidential elections and more recently, 6.8 million voters (43 percent female) elected Parliament and Provincial Councils.
2. **Roads link the country.** The highway from Kandahar to Herat nears completion, and construction is underway or complete on more than 1,200 km of secondary roads.
3. **Critical infrastructure developed.** 17 women's centers have been developed, 29 courts have been rehabilitated or constructed, and three industrial parks are under construction.
4. **Agricultural output rises.** Cereal output increased 24 percent and livestock and poultry production increased by $200 million.
5. **Responding to the poppy problem.** The three provinces where the largest alternative livelihood programs were implemented had significant declines in poppy cultivation from 2004 to 2005: Nangarhar – a 96 percent decrease, Badakshan – a 53 percent decrease, Helmand – a 10 percent decrease.
6. **Combatants choose peace.** More than 60,000 former combatants have given up their weapons and are reintegrating into the civilian labor force.
7. **Domestic revenue increases.** $260 million in Total Domestic Revenue was collected in this past Afghan fiscal year, an increase of 20 percent from the previous year.
8. **Media outlets grow.** Created 32 community-based, independent FM radio stations across the country.
9. **Access to healthcare expanded.** 7.1 million Afghans in 14 provinces now have better access to quality health services, approximately 70 percent of patients served are women and children.
10. **Older students catch up.** 170,000 students (58 percent girls) in 17 provinces make up for lost years of schooling through an accelerated learning program.

OUR PERFORMANCE RATING SYSTEM

To assess performance results against established targets, the Agency applies a results rating methodology, which has been applied consistently to its results for FY 2004 and FY 2005. Program managers use this methodology to assign one of three performance ratings for a given result. Based on a combination of the established parameters shown below, managers assign a performance rating that reflects the extent to which a given target was achieved.

Performance Rating	Below Target	On Target	Exceeds Target
Criteria	**Parameters**		
Target Status	Missed FY 2005 target by a significant margin	Met FY 2005 target	Significantly exceeded FY 2005 target
Budget Status	Spent significantly over budget	Spent on budget	Spent significantly under budget
Timeliness	Missed most critical deadlines	Met all critical deadlines	Met most critical deadlines early
Impact on Future Operations	Significantly impairs program's ability to achieve future years' performance targets, requiring major downward revisions to future targets	No change in program's ability to achieve future years' performance targets	Significantly improves program's ability to achieve future years' performance targets, requiring major upward increases to future targets

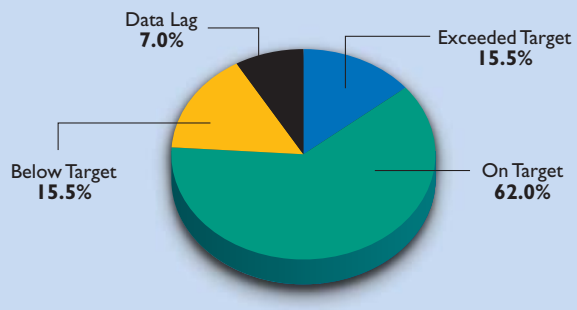
This methodology represents an important step toward using a standard tool to evaluate the Agency's work. However, to correctly interpret the numerical analysis of the report, it is important to note the following:

- Target Weights: Beginning in FY 2005 USAID placed weights on targets for each annual goal to provide USAID with analytical information regarding the proportionality of targets to the overall goal achievement
- No Data Available: The Agency could not report on a large percentage of its FY 2005 performance results. In the majority of cases this was due to lagging, calendar year (CY)-based data, collected through USAID's Annual Report Database (ARD) process (which is not available until after mid-December each calendar year), and is therefore reported as a data lag. In cases where data estimation techniques could be applied to certain indicators and targets, those performance results are included, but are identified as preliminary. The Agency plans to publish as Addendum to the FY 2005, in April 2006, which will provide final, validated performance results information that will be generated on the basis of the ARD, the Agency's traditional data collection and analysis tool that generates performance data in the December timeframe each year. Each strategic goal chapter in the Performance Results section includes a table that identifies the number of Preliminary Results and data lags associated with that particular strategic goal.

SUMMARY OF FY 2005 PERFORMANCE RESULTS

The following chart provides preliminary USAID performance results for FY 2005, arrayed by strategic and performance goal from the Joint State-USAID Strategic Plan. These results are preliminary because at this stage they were collected from USAID's operating bureaus and field missions prior to completion of the standard Annual Report (AR) data collection and validation process. In the traditional USAID data collection/validation process for performance results, which is contained in the Agency's ARD, annual performance results are typically not available until the mid to late-December timeframe. This makes it necessary to estimate performance results data; however, data estimation is an accepted practice when reporting data to the Office of Management and Budget (OMB) in the PAR. The estimated data must be verifiable, complete, reliable, comparable, and consistent, and the methodology used to estimate the data must be well documented. Acceptable methods for data estimation include: (1) expert opinion, (2) historical trends, (3) extrapolation, and (4) sampling and statistics. The preliminary performance results specified below are the result of expert opinion and an analysis of historical trends, based on many years of experience monitoring the results of the particular indicator and target in question. For more information on acceptable USAID data estimation methods, please refer to Appendix C at the end of this report.

SUMMARY OF FY 2005 PRELIMINARY PERFORMANCE RESULTS



Performance Rating	Number of Results
Exceeded Target	11
On Target	44
Below Target	11
Data Lag	5
Total Number of Results	71

The Summary of Performance Results table starting on the following page is a summarization of the indictors and performance information that will be presented in the Performance Section of this report. This table groups indictors by their strategic goal, then by performance goal, and then by program goal. Furthermore, the table presents the rating of the indicator and states whether the indicator met its target, exceeded its target, or if the target was not met. For greater details about performance please refer to the Performance Section of this report.

SUMMARY OF PERFORMANCE RESULTS				
Strategic Goal	**Performance Goal**	**Program Goal**	**Indicators**	**Target Rating**
#1 Regional Stability	Existing and Emergent Regional Conflicts are Contained or Resolved	Conflict Management and Mitigation	Progress Made in Advancement of a Peace Process (Worldwide)	On Target
			Number of Local Organizations Promoting Peace for 6 + Months	Data Lag
			Number of Functioning Civil Society-Civil Authority Local Governance Partnerships in Stable Areas	Data Lag
#2 Counterterrorism	Improve Political and Economic Conditions to Reduce Terrorism	Diminish Potential Underlying Conditions of Terrorism in Iraq	Level of Economic Aid to Iraq	On Target
			Support Education Reform and Development in Iraq	On Target
			Provide Assistance to Transform Iraq to a Free Market-based Economy	On Target
			Support Iraqis in Their Efforts to Define and Develop Democratic Local Governance Policies and Systems	On Target
			Create Jobs and Provide Essential Services in Iraq	On Target
			Promote Citizenry Confidence in Government's Ability to Effectively and Efficiently Function	On Target
			Increase Delivery of Essential Services in Iraq	Below Target
		Diminish Potential Underlying Conditions of Terrorism in Afghanistan	Rehabilitation Status of Afghan Educational Infrastructure	On Target
	Stable Political and Economic Conditions that Prevent Terrorism from Flourishing in Fragile or Failing States	Diminish Conditions That Allow Terrorist Recruitment in Fragile or Failing States	Number of Students Graduating from Vocational Training Programs with High Youth Unemployment/Underemployment	On Target
			Number of Students Enrolled in Basic Education Programs (by Madrassa, Other) Receiving a Secular Curriculum Supported Through USAID	Exceeded Target
			Number of Jobs Created Through USAID-funded Work Projects	On Target
			Number of Community-identified Activities Completed Through Community Participation (e.g., Rehabilitate Roads, Build Markets, Build Playgrounds, etc.)	Exceeded Target
			Number of Communities Assisted Through USAID	On Target
#3 International Crime and Drugs	International Trafficking in Drugs, Persons, and Other Illicit Goods Disrupted and Criminal Organizations Dismantled	Global Poppy Cultivation	Number of Hectares in Licit Production Formerly in Illicit Poppy Production (Alt: Alternative Development Supported)	Below Target
		Improve Anti-Trafficking Prosecutorial and Protection Capacities	Number of People Reached Through USAID-supported Anti-trafficking in Persons Programs	On Target
#4 Democracy and Human Rights	Measures Adopted to Develop Transparent and Accountable Democratic Institutions, Laws, and Political Processes and Practices	Engagement to Advance Democracy	Strengthened Local Governance	On Target
			Civil Society Functioning	Data Lag
			Citizens Access to Justice Sector Expanded for All	Exceeded Target
			Corruption Mitigated in Priority USAID Countries	Below Target
			Constituencies Political Parties Represent	On Target
			Status of Independent/Alternative Media	On Target

(continued)

SUMMARY OF PERFORMANCE RESULTS *Continued*

Strategic Goal	Performance Goal	Program Goal	Indicators	Target Rating
#5 Economic Prosperity and Security	Institutions, Laws, and Policies Foster Private Sector Growth, Macroeconomic Stability, and Poverty Reduction	Science-Based Decision-Making and Standards Development	Effectiveness of Contacts Between Science & Technology (S&T) Communities and Policymakers	On Target
		Private Sector Capacity	Enterprise Level Competitiveness	On Target
	Increased Trade and Investment Achieved through Market-Opening International Agreements and Further Integration of Developing Countries into the Trading System	Create Open and Dynamic World, Regional and National Markets	Level of Trade Capacity of USAID-Assisted Countries	On Target
			Number of USAID-Assisted Countries in Some Stage of World Trade Organization (WTO) Accession and Compliance	On Target
	Secure and Stable Financial and Energy Markets	Secure Energy Supplies	Level of Energy Efficiency	Exceeded Target
	Enhanced Food Security and Agricultural Development	Agriculture-led Income Opportunities Expanded	Level of Agricultural Sector Growth	Exceeded Target
		Food Security	Number of People Receiving Title II Food Assistance	On Target
#6 Social and Environmental Issues	Improved Global Health, Including Child, Maternal, and Reproductive Health, and the Reduction of Abortion and Disease, Especially HIV/AIDS, Malaria, and Tuberculosis	Infectious Diseases	Tuberculosis Treatment Success Rate (%) (37 Countries)	On Target
			Case Detection Rate for Tuberculosis	On Target
			Percentage of Households in Malaria Endemic Areas with at Least One Insecticide-Treated Net (ITN)	Below Target
			Number of People Receiving HIV/AIDS Treatment in the 15 Emergency Plan Focus Countries	Below Target
			Estimated Number of HIV Infections Prevented in the 15 Emergency Plan Focus Countries	Data Lag
			Number of People Receiving HIV/AIDS Care in the 15 Focus Countries	On Target
			Number of Clients Provided Services at STI Clinics	Exceeded Target
			Number of Orphans and Other Vulnerable Children Receiving Care/support Services Through USAID-Assisted Programs	On Target
			Number of HIV-infected Pregnant Women Receiving a Complete Course of Anti-Retroviral (ARV) Prophylaxis to Reduce the Risk of Mother-to-Child Transmission (MTCT) in USAID-Assisted Sites	On Target
		Maternal and Reproductive Health	Total Fertility Rate (TFR)	On Target
			Percent of Live Births Attended by Skilled Birth Attendants	On Target
			Modern Contraceptive Prevalence Rate (Global)	Below Target
			Percent of Births Spaced More Than Three Years Apart	Exceeded Target
			Percent of First Births to Mothers Under 18	Below Target
			Percent Need Satisfied with Modern Contraceptive Methods	Below Target
			Percent of Births Parity 5 or Higher	On Target
		Child Health	Under-Five Mortality Rate	On Target
			Neonatal Mortality Rate	Exceeded Target
			Underweight for Age Among Children Under Five	On Target
			Percentage of Children with DPT3 Coverage	On Target
			Percent of Children Aged 0-4 with Diarrhea Who Received Oral Rehydration Therapy (ORT)	Below Target

(continued)

SUMMARY OF PERFORMANCE RESULTS *Continued*

Strategic Goal	Performance Goal	Program Goal	Indicators	Target Rating
#6 Social and Environmental Issues ***Continued***	Partnerships, Initiatives, and Implemented International Treaties and Agreements that Protect the Environment and Promote Efficient Energy Use and Resource Management	Institutionalizing Sustainable Development	Number of People in Target Areas With Access to Adequate Safe Water Supply and/or Sanitation That Meets Sustainability Standards	Below Target
			Number of People with Adequate Access to Modern Energy Services	Exceeded Target
		Coastal and Marine Resources	Hectares of Coastal and Marine Ecosystems Under Management	On Target
			Number of Coastal and Marine Policies, Laws, or Regulations Developed, Adopted, and Implemented	On Target
		Conservation of Biological Diversity, Protected Areas, Forests, and Other Natural Resources	Biodiversity Conservation and Natural Resource Management	Below Target
		Global Climate Change	Status of Bilateral Regional and Global Climate Change Partnerships and Initiatives	On Target
	Broader Access to Quality Education with Emphasis on Primary School Completion	Improved Access to Quality Education	Number of Learners Completing Basic Education in Programs Sponsored by USAID	On Target
			Capabilities in Higher Education and Workforce Development Programs Sponsored by USAID	On Target
#7 Humanitarian Response	Effective Protection, Assistance, and Durable Solutions for Refugees, Internally Displaced Persons, Conflict Victims, and Victims of Natural Disasters	Humanitarian Assistance	Crude Death Rates (CDR)	On Target
			Nutritional Status of Children Under Five Years of Age	On Target
			Number of Beneficiaries Assisted by USAID (in millions)	On Target
	Improve Disaster Prevention and Response Through Capacity Building in Crisis-Prone Countries	Partner Accountability	Number of People and Number/Percent of Partner Institutions That Received Training and Technical Support	On Target
			Number/Percent of Crisis-Prone Countries That Have Systems to Warn about Shocks and Their Effects on Food Availability/Access by Vulnerable People	On Target
			Number of Institutions Reconstructed and Rehabilitated (Homes, Water/Sanitation Facilities, Schools, Markets, etc.)	On Target
#8 Management and Organizational Excellence	Modernized, Secure, and High Quality Information Technology (IT) Management and Infrastructure that Meet Critical Business Requirements	Secure Global Network and Infrastructure	Percentage of IT Systems Certified and Accredited	On Target
			Number of Information Security Vulnerabilities Per IT Hardware Item	On Target
	Secure, Safe, and Functional Facilities Serving Domestic and Overseas Staff	Compound Security Program	Percent of Missions Not Co-Located With the Department of State Receiving Targeted Physical Security Enhancements Within a Given Year	Exceeded Target
	Integrated Budgeting, Planning, and Performance Management; Effective Financial Management; and Demonstrated Financial Accountability	Improved Financial Performance	Total Number of Federal Managers' Financial Integrity Act (FMFIA) and Auditor Identified Material Weaknesses Identified	Exceeded Target
	Customer-Oriented, Innovative Delivery of Administrative and Information Services, and Assistance	Customer-Oriented Management Services	Average "Margin of Victory" on Customer Service Survey for Management Offices (PART) – Two Year Average of Per Capita Central Management Costs	Data Lag

ILLUSTRATIVE EXAMPLES

STRATEGIC GOAL #1: REGIONAL STABILITY

Demobilized ex-combatants in Butembo.
PHOTO: LESLIE ROSE, USAID/REDSO/ESA

DEMOCRATIC REPUBLIC OF CONGO

In the Democratic Republic of the Congo (DRC), USAID is implementing several programs in areas heavily affected by conflict. The programs strengthen local communities' access to justice, reconciliation efforts, and the reintegration of ex-combatants. In eastern DRC, USAID supports a community-based reintegration program for Ituri forces and other groups that have recently disarmed. Partners trained 1,000 ex-combatants and 1,200 local community members in conflict resolution, project management, and income management, and created conflict resolution committees and project management committees in 30 local communities. This community-based approach resulted in 90 community rehabilitation projects (55 local infrastructures, such as routes, bridges, schools, markets, health centers, and electrification systems; and 35 fishponds) reaching 60,000 indirect beneficiaries. USAID continues to identify ways to engage the private sector in advancing peace, security, and sustainable development. USAID envisions leveraging resources through private-public partnerships to foster economic and democratic growth objectives. In addition, at the national level USAID has assisted the DRC National Demobilization, Disarmament, and Reintegration (DDR) process by (1) providing technical assistance to the National Commission for DDR, including the provision of a full-time international expert who has been instrumental in finalizing the plan and now helping to implement it; and (2) providing logistical and material assistance such as reintegration kits to facilitate the national DDR process launched in March 2005.

STRATEGIC GOAL #2: COUNTERTERRORISM

PHILIPPINE INTERNS STUDY THE LEGISLATIVE PROCESS

Most of the Philippines' Muslim minority population live on the island of Mindanao. This region has been economically and politically disadvantaged for decades as a result of violent conflict between Muslim separatist groups and the Philippine government. Disenfranchised due to the island's politics and economy, many Muslims believe the Philippine government ignores Muslim concerns and interests. The region's continuing depressed conditions are conducive to recruitment efforts of terrorist groups.

Administrator Natsios and USAID official Martin check the Web sites being browsed by students. PHOTO: USAID/ANE

The Philippine government and USAID are placing special focus on the conflict areas of Mindanao in an attempt to accelerate economic growth and promote peace. USAID, in partnership with the Speaker of the Philippines House of Representatives, recently launched a congressional internship program bringing recent graduates from universities in the conflict-affected areas of Mindanao to Manila for the opportunity to acquire hands-on experience in the legislative process.

The participants, mostly from remote provinces, are identified as future leaders by university chancellors, thesis advisors, and political and civic leaders. Many of those eligible for the program have completed graduate degrees in mass communications and public administration, and have volunteer experience with local governments and non-governmental organizations (NGO). During the four-month internship, each is assigned to a specific House committee, subcommittee, or office, and is introduced to a broad range of national issues.

The interns are excited about their unique opportunity to learn how government works from the inside, and to share their view with Philippine policymakers. Program graduates believe that their improved understanding of government will allow them to contribute more effectively to the development of their home provinces. While expanding their knowledge of how decisions are made in the Congress, they have shared Muslim concerns with key lawmakers and thereby increased understanding of Muslim culture. The initial success of the program has prompted USAID and the Philippines House of Representatives to extend it. Current plans are to offer internships to at least 30 young Muslim scholars each year.

STRATEGIC GOAL #3: INTERNATIONAL CRIME AND DRUGS

LAC (LATIN AMERICA AND THE CARIBBEAN): LICIT INCOME ALTERNATIVES

Despite bold efforts by Colombia, Bolivia, and Peru to combat narcotrafficking, the lack of state presence in some areas has allowed illegal narcotics production and armed terrorist organizations to continue to flourish. The spillover of drug related criminal activity brings the threat of violence and instability to communities along Ecuador's northern border with Colombia. USAID is working with the governments of Bolivia, Colombia, and Peru to eradicate coca and opium poppy by providing licit income alternatives and strengthening communities. As a result USAID has been able to: develop sustainable farm-level production and market linkages to increase licit employment opportunities and incomes in coca growing regions; expand the presence of the state by improving participation in and access to local government institutions; and improve general social conditions, such as health and education; and finance productive infrastructure and investments, such as roads and bridges, identified by participating communities.

USAID supports alternative livelihood programs and licit income generation in Peru.
PHOTO: ADELE LISKOV, USAID/PERU

STRATEGIC GOAL #4: DEMOCRACY AND HUMAN RIGHTS

A woman votes for the first time in Kirkuk, Iraq.
PHOTO: USAID/SCOTT JEFFCOAT

IRAQ: DEMOCRATIZATION

USAID played a key role in delivering support to the Iraqi people in their efforts to make Iraq's historic elections on January 30, 2005 a resounding success. At the request of the Independent Election Commission of Iraq (IECI), USAID and its partners fielded domestic election observers, delivered voter education, and implemented conflict mitigation programs. In time for the elections, USAID trained 12,000 of the domestic elections monitors and nearly half of the 30,000 political party monitors, a major step in helping to ensure free and fair elections.

To build the foundations of democracy, USAID has also trained 10,000 council members in democratic principles and procedures, budgeting, and citizen input. USAID has also worked with more than 5,000 officials at the provincial levels in water treatment, waste management, and financial management systems.

Thousands of Iraqi women participated in the January 2005 electoral process by receiving training and serving as election monitors. They also ran as candidates and won 87 seats in the Iraqi National Assembly (INA) constituting 31 percent of all Assembly members. The new cabinet includes six women ministers (out of a total of 33 individuals) in the following Ministries:

Communications, Displacement and Migration, Environment, Science and Technology, Public Works, and Women's Affairs. Women occupy approximately 25 percent of the seats of the elected Provincial Councils as well. An INA Women's Caucus that cuts across party lines has been established and has identified areas of common interest with regard to incorporating women's rights in the Constitution. Iraqi women serve as entrepreneurs, employees, business leaders, and professionals and have access to business development technical assistance, grants, and loans through outreach programs targeting women.

STRATEGIC GOAL #5: ECONOMIC PROSPERITY AND SECURITY

A nursery worker cross-pollinates flowers for export. PHOTO: USAID/UGANDA

ETHIOPIA: LOAN GUARANTEE PROJECT STIMULATES BUSINESS GROWTH

Addis Ababa, Ethiopia—Until two years ago, groups of coffee and grain farmers in this populous country could not access credit, which meant that they often lacked working capital and could rarely invest in new machinery or other improvements. That has changed since a Development Credit Authority (DCA) project began working with Abyssinia Bank and Awash International Bank. From September 2004 to March 2005, Abyssinia Bank lent more than $2.2 million to 12 cooperative unions. During the same period, Awash lent $520,000 to one cooperative union and an agroprocessor.

USAID is currently developing a DCA program with a third bank to give loans to small and medium-sized businesses working in areas other than the four agricultural subsectors (textiles and garments, leather and leather products, tourism, and rural service providers). USAID works with agroprocessors and cooperatives in business management, and helps them draw up business plans that show the viability of their enterprises. At the same time, the Agency works with banks so that they consider the viability of a business rather than basing lending decisions on the amount of collateral. Giving loans to cooperatives ensures that at harvest time they can purchase lots of grain from individual farmers. Cooperatives can sell some of the product right away and store the rest for later, when they can fetch higher prices for the grain. Members of some 332 cooperatives—or about 390,335 households—benefited from the DCA program last year.

STRATEGIC GOAL #6: SOCIAL AND ENVIRONMENTAL ISSUES

LATIN AMERICAN AND THE CARIBBEAN (LAC): EDUCATION

The Centers of Excellence for Teacher Training (CETT) program is making excellent progress toward the goal of improving the quality of classroom reading instruction in grades one to three. CETT has successfully introduced a more child-centered, interactive approach to the teaching of literacy in LAC. To date, 12,500 teachers have received CETT training, surpassing targets. The three Centers of Excellence expanded their activities this past year and are now reaching teachers in 15 countries. Additionally, through an important alliance with Scholastic Books, CETT has made libraries of children's books available in classrooms, many of which had minimal reading materials in the past. The availability of books has given children an opportunity to apply their reading skills, and more important, has made reading more fun. The Scholastic book distribution began in the Caribbean during FY 2004. They are currently being distributed in Central America and the Dominican Republic, and distribution will begin shortly in the Andes.

Children enjoy splashing each other in a USAID school water project. PHOTO: USAID/ECUADOR

STRATEGIC GOAL #7: HUMANITARIAN RESPONSE

USAID delivers tsunami relief goods in Indonesia.
PHOTO: USAID/INDONESIA

TSUNAMI RELIEF REGIONAL

In an effort to mitigate the effects of further disasters, USAID is coordinating the U.S. government's Indian Ocean Tsunami Warning System (IOTWS) program. This $25.5 million, multi-agency effort to develop early warning capabilities for tsunamis and other hazards will monitor changes in the ocean floor and also connect local communities to a warning system. USAID is working together with U.S. technical agencies such as the National Oceanic and Atmospheric Association, the U.S. Geological Survey, the U.S. Forest Service, and the U.S. Trade and Development Agency to bring targeted expertise to both national and regional efforts. U.S. government funding will also support the International Oceanographic Commission as it takes the lead role in developing an international warning system with data sharing for more than 26 countries.

The USAID Global Development Alliance (GDA) works to enhance development impact by mobilizing the ideas, efforts, and resources of the public sector with those of the private sector and NGOs. USAID, through the GDA, has formed 18 partnerships with the private sector in tsunami-affected countries and leveraged more than $17.2 million in private sector funds for the Tsunami. USAID current and prospective partners in post-tsunami reconstruction include Mars, Chevron, Microsoft, Coca-Cola, Prudential, Deutsche Bank, IBM, Hilton, 3M, Conoco-Phillips, and the Mellon Foundation.

STRATEGIC GOAL #8: MANAGEMENT AND ORGANIZATIONAL EXCELLENCE

TARGETED SECURITY ENHANCEMENTS

One of the Office of Security's (SEC) highest priorities was to improve perimeter security at USAID's most threatened posts to protect its employees and facilities against bomb-laden vehicles. To mitigate this threat, SEC employed a variety of countermeasures, including construction of perimeter walls and the installation of state-of-the-art, anti-ram barriers. Other perimeter enhancements included increasing setback distances for USAID facilities by placing active and passive anti-ram barriers on adjacent streets or acquiring additional property. SEC also improved perimeter surveillance by modernizing and expanding closed-circuit television (CCTV) systems and installing explosive trace detection devices. A total of 33 projects were completed in FY 2005.

Perimeter gate with anti-ram bollards and vehicle barrier.
PHOTO: USAID OFFICE OF SECURITY (SEC)

MAJOR MANAGEMENT AND PERFORMANCE CHALLENGES

PERFORMANCE CHALLENGES

During FY 2005 USAID faced many challenges. These challenges varied and included such things as U.S government restrictions as to who can receive aid and limited Mission resources. Some of these challenges can be rectified through sound management practices and oversight. Some challenges, however, are out of USAID control, such as fluctuations in exchange rates which reduce USAID's purchasing power or changes in the country tax legislation that affect USAID funded programs. Highlights of some of the challenges that USAID faces are shown below and arrayed by USAID's strategic goals:

CONTINUING CHALLENGES
REGIONAL STABILITY
◆ Strengthening the management skills and capacity of local administrations, local interim representative bodies, and civic institutions to improve the delivery of essential municipal services, such as water, health, public sanitation, and economic development in Iraq.
◆ Factionalism, ongoing violence, and lingering pockets of terrorism continue to threaten the viability and stability of Afghanistan's central government and make it difficult to cement democratic institutions.
◆ In many countries where USAID works, violence and instability continue to hamper USAID's efforts to catalyze democratic transformations and remove sources of conflict.
COUNTERTERRORISM
◆ The two goals of countering terrorism and expanding Muslim outreach to support moderates create a real dilemma for the U.S. government. Security requirements restrict exchanges and limit the non-governmental organizations (NGO) with whom USAID can work, in effect, limiting its outreach. Survey data show that negative views of the United States pervasive throughout the Muslim world are due to U.S. policies as well as perceived maltreatment of Muslims in the United States.
◆ The ability of USAID and USAID front-line staff to effectively develop, oversee, and monitor projects is severely hampered by the security situation in the crisis areas where it operates.
◆ Regional pockets continue to harbor terrorists and radicals who pose a significant risk to those countries, as well as to the United States.
INTERNATIONAL CRIME AND DRUGS
◆ Despite bold efforts by Colombia, Bolivia, and Peru to combat narcotrafficking, the lack of state presence in some areas has allowed illegal narcotics production and armed terrorist organizations to continue to flourish.
◆ Drug related spillover criminal activity brings threats of violence and instability to communities along Ecuador's northern border with Colombia.
◆ Afghanistan is the source of three-quarters of the world's opium. Persistent poverty, high opium prices, and loans from traffickers were all reasons for high opium production in 2005. Farmers are aware of the government ban on opium production, but the short-term benefits of the activity outweigh the potential risks from law enforcement measures.
DEMOCRACY AND HUMAN RIGHTS
◆ Eastern European countries need continued assistance to make their democratic institutions more stable, robust, and mature in preparation for broader political and economic integration with Europe. In both Europe and Eurasia (E&E), continued efforts are needed to promote a culture of democratic values, while working against ethnic and religious extremism, separatism, and intolerance.
◆ Since the fall of Paraguay's dictatorship 15 years ago, challenges to the country's democracy include several coup attempts, the assassination of a vice president, and the resignation of a president. In El Salvador, the declining share of national income for the poor undercuts the significant progress the country has made over the past decade and poses a serious threat to an emerging democracy.

(continued)

CONTINUING CHALLENGES *(continued)*

DEMOCRACY AND HUMAN RIGHTS

- In Sudan, intermittent conflict and related human rights abuses (especially in the western Sudan region of Darfur) and deep ethnic and religious rifts will make reconciliation and a transition to peace difficult. Uganda's progress toward a vigorous and representative multi-party democracy requires permitting political parties to operate freely and constructively, as well as building institutions and systems which can check and correct abuse of authority and corruption.
- One major challenge faced by USAID has been how to provide guidance to missions seeking to do anti-corruption activities in assisted countries. Based on state-of-the-art research, USAID has developed a new "Anti-Corruption Strategy." This has led to a very large number of requests for program design (including Millennium Challenge Account (MCA) threshold country programs) and mission- and region-level training. If USAID adequately responds to these requests, it should position itself for a more active, explicit focus on fighting the corruption that has undermined its social and economic development effort.

ECONOMIC PROSPERITY AND SECURITY

- A large number of Iraqis are still unemployed, and many of those with jobs are underemployed, working part-time or for small income. This is a particularly alarming figure, given that some 70 percent of the Iraqi population is under 25—a large labor pool with need for economic opportunity.
- High unemployment rates, a ballooning youth population, and graduates without employable skills contribute to growing dissatisfaction and potential instability in many countries.
- The shifting of food markets from "markets with public faces" of the parastatal 1960s and 1970s, to "faceless markets" of the liberalized 1980s and 1990s, to "markets with private sector faces" of today have forced producers to develop complex relationships with the private sector or face exclusion from the markets.

SOCIAL AND ENVIRONMENTAL ISSUES

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

HUMANITARIAN RESPONSE

- Food is often identified as the most immediate and critical need of people living with HIV/AIDS and households affected by HIV/AIDS in the countries where PL480 Title II programs are implemented. In addition, households affected by HIV/AIDS are more vulnerable to food insecurity. Clearly, interventions focusing on food insecurity and nutritional status should take into account the impact of HIV/AIDS, and HIV/AIDS strategies and interventions should consider the nutrition and food security problems facing individuals infected by HIV and communities and families affected by HIV/AIDS. Title II resources however, have not increased in response to this heightened awareness. Although the attempt is made to seize opportunities to link HIV/AIDS and food assisted programs, it is clear that current Title II levels may preclude any increases in resources provided in support of HIV/AIDS programming objectives.

MANAGEMENT CHALLENGES

This section identifies those major management challenges and high risk areas cited by USAID's Office of Inspector General (OIG) and the continuing efforts by USAID to address them.

FINANCIAL MANAGEMENT	
Challenge	**Estimating Accrued Expenditures**
Findings	USAID's FY 2004 accrued expenditures and accounts payable recorded in the core accounting system contained inaccuracies because of the large number of Cognizant Technical Officers (CTO) responsible for estimating accrued expenditures – an effort for which many had not been adequately trained. Consequently, the OIG proposed, and USAID made, $254 million of adjustments to more accurately present accrued expenditures and accounts payable reported on USAID's financial statements.
Actions Taken	Accruals training has been updated in both classroom and computer-based venues. In addition, an accruals calculator tool has been developed to assist CTOs in calculating accruals.
Challenge	**Managing for Results**
Findings	Federal laws, such as the Government Performance and Results Act (GPRA) of 1993, require that agencies develop performance measurement and reporting systems that establish strategic and annual plans, set annual targets, track progress, and measure results. In addition, government-wide initiatives, such as the President's Management Agenda (PMA), require that agencies link their performance results to budget and human capital requirements. A significant element of USAID's performance management system is the Annual Report (AR) prepared by each of its operating units. These reports provide information on the results attained with USAID resources, request additional resources, and explain the use of, and results expected from, these additional resources. Information in these unit-level ARs is consolidated to present a USAID-wide picture of achievements in USAID's Performance and Accountability Report (PAR). OIG continues to monitor USAID's progress in improving its performance management system. While USAID has made notable improvements, more remains to be done. For example, last year OIG reported that certain information included in USAID's FY 2004 PAR did not contain a clear picture of USAID's planned and actual performance for that year. Moreover, the primary performance information included was based on results achieved in FY 2003 rather than FY 2004.
Actions Taken	USAID continues to refine its process for collecting timely and accurate performance information. The most significant improvement is in the area of the performance information collected at the Mission level through the AR application, which will be collected on a semi-annual (as opposed to annual) basis. Twice-yearly reporting will permit operating units to project data for the full current year based on actual data halfway through the current year. These projections, based on first half actual data, will be included in the draft PAR, which is submitted to OIG in October each year. This data, along with the inclusion of the Congressionally-mandated Online Presidential Initiatives Network (OPIN) data provides real-time performance data. Performance information will then be updated when final AR data are available, and will be included in the PAR Addendum published each Spring.

(continued)

FINANCIAL MANAGEMENT *(continued)*	
Challenge	**Acquisition and Assistance Management**
Findings	Because of the innate complexities associated with acquisition and assistance—numerous laws, regulations, policies, procedures, definitions, etc.—USAID faces challenges in its acquisition of supplies and services. Compounding this situation is the fact that many of USAID's development results are achieved through intermediaries such as contractors, grantees, and recipients of cooperative agreements. In such an environment, promoting operational efficiency and effectiveness is critical in ensuring that intended results are achieved.
Actions Taken	USAID is collaborating with the Department of State and other federal agencies, the Small Business Administration, and the Office of Management and Budget (OMB) on how best to support small business programs in contracts involving overseas performance. The Agency has also issued a policy directive to reinforce adherence to existing policies on U.S. Personal Service Contracts (PSC) related to contract extensions and renewals.
Challenge	**Human Capital Management**
Findings	The PMA identifies the strategic management of human capital as one of five government-wide areas that needs improvement. In response to the PMA, and to address its own human capital challenges, USAID has undertaken a major effort to improve and restructure its human capital management. For example, in August 2004, USAID issued its first comprehensive Human Capital Strategic Plan, which covered FY 2004 to FY 2008. As of June 30, 2005, OMB gave USAID a "yellow" rating for its overall status in the area of human capital management, an upgrade from an unsatisfactory rating of "red." USAID needs to continue efforts to implement its workforce planning to close skill gaps through recruitment, retention, training, succession planning, and other strategies.
Actions Taken	The Agency has created a permanent workforce planning process, demonstrated a workforce analysis model, and obtained management approval of the workforce analysis and planning process. This process identifies skill and competency gaps and presents strategies to close gaps. USAID has also completed a diversity study and established an Executive Diversity Council. It continues to close mission-critical gaps, meeting all of its hiring targets for FY 2005. The Agency also continued to adjust headquarters and field organizational structures using redeployment and de-layering. As a result of a number of initiatives, USAID has moved up in the rankings of the best places to work and has experienced a decline in civil service attrition.

SUMMARY AND RAMIFICATIONS OF FY 2004 RESULTS RATED "BELOW TARGET"

In FY 2004, USAID achieved all of its strategic goals for that year. Of these strategic goals, five did contain operating units that did not meet some of their operating unit objectives, but overall strategic goal performance was assessed as meeting intended objectives. To determine whether a strategic goal was achieved overall, the Agency uses a methodology that assesses the overall proportion of targets met and exceeded to targets that were not met. The following text describes specific objectives that were assessed as "Below Target," as well as an assessment of these failures in the context of overall strategic goal achievement.

STRATEGIC GOAL 1: REGIONAL STABILITY

One operating unit—the Democratic Republic of Congo (DRC)—failed to achieve it targets in the regional stability objective. In the DRC, conflicts related to country control are still present, which contributed to the failure of this country to meets its target. The failure of this operating unit to meet its country specific targets did not, however, impede the Agency from achieving its regional stability goal. Corrective actions are being taken to resolve outstanding stability concerns in the DRC For more information please refer to *http://www. usaid.gov/locations/sub-saharan_africa/countries/drcongo/*.

STRATEGIC GOAL 3: INTERNATIONAL CRIME AND DRUGS

One operating unit—Ecuador—failed to achieve its target for its objective to reduce the amount of international crime and drugs. Despite efforts to strengthen Ecuador's northern border communities to contain the spread of the coca/cocaine from Colombia, drugs and international crime are still major problems for Ecuador. The failure of this operating unit to meet its country specific targets did not, however, impede the Agency from achieving its regional stability goal. Corrective actions are being taken to resolve outstanding international and drugs concerns in Ecuador. For more information please refer to *http://www.usaid.gov/locations/latin_america_caribbean/country/ecuador/index.html*.

STRATEGIC GOAL 4: DEMOCRACY AND HUMAN RIGHTS

Eighteen operating units—Angola, Armenia, Colombia, DRC, Dominican Republic, Ghana, Guinea, Kazakhstan, Kenya, Kyrgyzstan, Macedonia, Mexico, Namibia, Panama, Serbia, South Africa, Tajikistan, and Uzbekistan—failed to achieve targets in their democracy objectives. In all cases, these failures are attributable to the challenge of establishing and working with democratic governments in developing countries. The failure of these operating units to meet their country specific targets did not, however, impede the Agency from achieving its regional stability goal. Corrective actions are being taken to resolve outstanding democracy and human rights concerns in these countries. For more information please see the following links:

Angola	*http://www.usaid.gov/locations/sub-saharan_africa/countries/angola/index.html*
Armenia	*http://www.usaid.gov/locations/europe_eurasia/countries/am/*
Colombia	*http://www.usaid.gov/locations/latin_america_caribbean/country/colombia/index.html*
DRC	*http://www.usaid.gov/locations/sub-saharan_africa/countries/drcongo/*
Dominican Republic	*http://www.usaid.gov/locations/latin_america_caribbean/country/dominican_republic/index.html*
Ghana	*http://www.usaid.gov/locations/sub-saharan_africa/countries/ghana/index.html*

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Guinea	*http://www.usaid.gov/locations/sub-saharan_africa/countries/guineaa/index.html*
Kazakhstan	*http://www.usaid.gov/locations/europe_eurasia/car/kzpage.html*
Kenya	*http://www.usaid.gov/locations/sub-saharan_africa/countries/kenya/index.html*
Kyrgyzstan	*http://www.usaid.gov/locations/europe_eurasia/car/kgpage.html*
Macedonia	*http://www.usaid.gov/locations/europe_eurasia/countries/mk/*
Mexico	*http://www.usaid.gov/locations/latin_america_caribbean/country/mexico/index.html*
Namibia	*http://www.usaid.gov/locations/sub-saharan_africa/countries/namibia/index.html*
Panama	*http://www.usaid.gov/locations/latin_america_caribbean/country/panama/index.html*
Serbia	*http://www.usaid.gov/locations/europe_eurasia/countries/yg/*
South Africa	*http://www.usaid.gov/locations/sub-saharan_africa/countries/southafrica/index.html*
Tajikistan	*http://www.usaid.gov/locations/europe_eurasia/car/tjpage.html*
Uzbekistan	*http://www.usaid.gov/locations/europe_eurasia/car/uzpage.html*

STRATEGIC GOAL 5: ECONOMIC PROSPERITY AND SECURITY

Eight operating units—West African Regional Program (WARP), Caribbean Regional Program, Regional Center for Southern Africa, Croatia, India, Turkmenistan, Georgia, Indonesia—failed to achieve targets in their economic growth objectives. In all cases, these failures are attributable to the challenge of expanding economic opportunities in developing countries. Circumstances ranged from very poor crop production to low productivity and job placement. The failure of these operating units to meet their country specific targets did not, however, impede the Agency from achieving its regional stability goal. Corrective actions are being taken to resolve outstanding economic prosperity and security concerns in these countries. For more information please see the following links:

West African Regional Program (WARP)	*http://www.usaid.gov/locations/sub-saharan_africa/countries/warp/index.html*
Caribbean Regional Program	*http://www.usaid.gov/locations/latin_america_caribbean/country/program_profiles/caribbeanprofile.html*
Regional Center for Southern Africa	*http://www.usaid.gov/locations/sub-saharan_africa/countries/rcsa/index.html*
Croatia	*http://www.usaid.gov/locations/europe_eurasia/countries/hr/*
India	*http://www.usaid.gov/locations/asia_near_east/countries/india/*
Turkmenistan	*http://www.usaid.gov/locations/europe_eurasia/car/txpage.html*
Georgia	*http://www.usaid.gov/locations/europe_eurasia/countries/ge/*
Indonesia	*http://www.usaid.gov/locations/asia_near_east/countries/indonesia/*

STRATEGIC GOAL 6: SOCIAL AND ENVIRONMENTAL ISSUES

Sixteen operating units—Jamaica , Somalia, South Africa, Benin, Brazil, Burundi, El Salvador, Kosovo, Liberia, Uzbekistan, Zambia, Central America Regional Program, Mexico, Peru, Regional Center for Southern Africa, Turkmenistan—failed to achieve targets in their social and environmental objectives. This strategic goal contains the greatest diversity of sectors—including health, education, and environment—and thus is hardest to summarize. In all cases, these failures are attributable to the challenge of expanding social services in developing countries. For instance, people with HIV/AIDS and other debilitating diseases, find it difficult to travel to the locations where various USAID-assisted clinics are present. The failure of these 15 operating units to meet their country specific targets, did not, however, impede the Agency from achieving its Social and Environmental Issues goal. Corrective actions are being taken to resolve outstanding economic prosperity and security concerns in these countries. For more information please see the following links:

Jamaica	*http://www.usaid.gov/locations/latin_america_caribbean/country/jamaica/index.html*
Somalia	*http://www.usaid.gov/locations/sub-saharan_africa/countries/somalia/index.html*
South Africa	*http://www.usaid.gov/locations/sub-saharan_africa/countries/southafrica/index.html*
Benin	*http://www.usaid.gov/locations/sub-saharan_africa/countries/benin/index.html*
Brazil	*http://www.usaid.gov/locations/latin_america_caribbean/country/brazil/index.html*
Burundi	*http://www.usaid.gov/locations/sub-saharan_africa/countries/burundi/index.html*
El Salvador	*http://www.usaid.gov/locations/latin_america_caribbean/country/el_salvador/index.html*
Kosovo	*http://www.usaid.gov/locations/europe_eurasia/countries/ko/*
Liberia	*http://www.usaid.gov/locations/sub-saharan_africa/countries/liberia/index.html*
Uzbekistan	*http://www.usaid.gov/locations/europe_eurasia/car/uzpage.html*
Zambia	*http://www.usaid.gov/locations/sub-saharan_africa/countries/zambia/index.html*
Central America Regional Program	*http://www.usaid.gov/locations/latin_america_caribbean/country/program_profiles/caregionprofile.html*
Mexico	*http://www.usaid.gov/locations/latin_america_caribbean/country/mexico/index.html*
Peru	*http://www.usaid.gov/locations/latin_america_caribbean/country/peru/index.html*
Regional Center for Southern Africa	*http://www.usaid.gov/locations/sub-saharan_africa/countries/rcsa/index.html*
Turkmenistan	*http://www.usaid.gov/locations/europe_eurasia/car/txpage.html*

MANAGEMENT CONTROLS, SYSTEMS, AND COMPLIANCE WITH LAWS AND REGULATIONS

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT (FMFIA)

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

An unqualified Statement of Assurance for FY 2005 is included in the Administrator's letter at the beginning of this report. The Agency evaluated its management control and financial management systems for the fiscal year ending September 30, 2005. This evaluation provided reasonable assurance that the objectives of the FMFIA were achieved, and forms the basis for the Administrator's Statement of Assurance.

MANAGEMENT CONTROL PROGRAM

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

A control deficiency occurs when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect vulnerabilities on a timely basis. Specifically, a design deficiency exists when a control necessary to meet the control objective is missing or an existing control is not properly designed, so that even if the control operates as designed, the control objective is not always met. An operation deficiency exists when a properly designed control does not operate as designed or when the person performing the control is not qualified or properly skilled to perform the control effectively. A reportable condition exists when there is a control deficiency or combination of deficiencies that management determines should be communicated because they represent significant weaknesses in the design or operation of internal control that could adversely affect the organization's ability to meet its internal control objectives. Reportable conditions that the USAID Administrator determines are significant enough to report outside of the Agency are categorized as material weaknesses. The chart below describes the criteria that the Agency uses for FMFIA reviews.

FMFIA REVIEW CRITERIA

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

STATUS OF MANAGEMENT CONTROLS

FMFIA REPORTABLE CONDITIONS

As an Agency-wide accomplishment in FY 2005, USAID managers successfully completed management control reviews of the Agency's financial, program, and administrative policies, procedures, and operations. After the results from operating units were consolidated, one new reportable condition was disclosed. USAID is voluntarily reporting the following issues:

Title	Fiscal Year First Identified
Inadequate Physical Security in USAID's Overseas Buildings & Operations	2001
Implementation & Activity Monitoring of Programs in ANE Region	2004
Lack of Effective Systems to Manage Field Support	2004
Information Technology (IT) Governance Issues	2005

Inadequate physical security in USAID's overseas buildings and operations. USAID cannot implement appropriate actions alone to comply with federal physical security standards for all employees serving overseas. Although USAID complies with the Secure Embassy Construction and Counterterrorism Act of 1999 (SECCA) and the provisions of the implementing security standards, more needs to be done to safeguard USAID employees overseas. A GAO report on embassy construction indicates that following the 1998 bombings of two U.S. embassies in Africa, the Department of State launched a multibillion-dollar, multi-year program to build new, secure facilities on compounds at posts around the world. The SECCA of 1999 requires that U.S. agencies, including USAID, co-locate offices within the newly constructed compounds. This report discusses how the Department of State is incorporating office space for USAID into the construction of new embassy compounds and the cost and security implications of its approach. GAO recommended that the Secretary of State: (1) achieve concurrent construction of USAID facilities to the maximum extent possible, and (2) consider, in coordination with the USAID Administrator, incorporating USAID space into single office buildings in future compounds, where appropriate. GAO also suggested that if the new cost-sharing proposal was not implemented in FY 2005, the Congress may wish to consider exploring other means by which to support concurrent construction. Another recent GAO report indicates that the Department of State has proposed a $17.5 billion program to build secure new embassies and consulates around the world. The administration has proposed the Capital Security Cost-Sharing Program, under which all agencies with staff assigned to overseas diplomatic missions would share in construction costs. GAO has found that the proposed cost-sharing formula (based on a headcount) could result in funds to accelerate embassy construction and encourage Agency rightsizing of overseas staff levels. Under the currently proposed program, the Department of State would build 150 new embassies by 2018, or 12 years sooner than the earlier projected completion date of 2030. The Department of State would pay nearly two-thirds of the annual amount needed, and non- Department of State agencies would pay a one-third share. At the same time, USAID believes that co-location is not always practical. If USAID is required to move onto embassy compounds without adequate resources for separate non-classified facilities, this would result in the inability to co-locate with the Agency's foreign national and contractor staffs. USAID must weigh these issues carefully and determine how to proceed. In the meantime, actions continue to re-locate USAID staff to more secure facilities. Since 1998, there have been 32 USAID mission relocations to interim office buildings and eight mission relocations to new secure office buildings overseas.

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

Lack of effective systems to manage field support. The intent of the field support system is to provide missions easy and flexible access to a wide variety of technical services provided by centrally-managed contract and grant agreements, in a manner that meets the changing needs, priorities, and approaches of missions' development portfolios, with minimal mission management burden. The current operating procedures and processes in place are excessively labor-intensive, and therefore it is increasingly difficult to meet missions' needs. USAID recognizes field support as a viable component of the Agency architecture and as a component of the required Agency Executive Information System (EIS). Efforts are underway to develop both an improved field support system, and a viable EIS.

Information Technology (IT) governance issues. Based on discussions with OIG staff and other stakeholders several deficiencies have been noted that pertain to lowering risk and increasing efficiency in the following key IT practice areas: IT Strategic Planning, Enterprise Architecture (EA), IT Policy and Practice Standardization, and the full establishment of the Program Management Office (PMO). A common thread among these four issues is a lack of recognized funding for their proper implementation at USAID.

There is general agreement between the CIO and OIG that funding these areas so that they are corrected and maintained as a process of continuous improvement is in the best interest of the Agency. Each of these areas is required to be performed to meet government standards for best practice IT governance. OIG will be addressing these and other issues with an audit report of their findings. OIG discussions and other internal assessments have pointed out that: (1) the CIO needs sufficient resources to provide effective IT governance, and (2) that these identified weaknesses are primarily attributed to the CIO's lack of adequate resources to support these priorities. This lack of adequate budget for contractor staffing for the CIO's organization is the major factor why these issues continue to exist.

The following synopsizes the issues that have been raised by the most recent OIG initiated discussions:

- *IT Strategic Planning:* USAID needs to update and maintain its IT Strategic Plan concurrent with the Agency's Strategic Plan.
- *EA:* USAID needs to staff, document, and maintain an EA functional capability and EA documentation that reflect the Agency's "As Is" and "To Be" IT EA states. The EA function needs to maintain data reference models, business reference models, technical reference models, service component reference models, and performance reference models for these "As Is" and "To Be" states.
- *IT Policy and Practice Standards:* USAID needs to develop and maintain a formal set of policies, processes, methods, tools, and procedures to guide its IT portfolio management, development projects, and operations in a manner that is repeatable, and meets industry and government best practices. All IT projects undertaken at USAID must follow these policies and practices.
- *PMO Full Establishment:* The PMO needs to be fully established and matured. The role of the PMO needs to be solidified within the USAID organization, and appropriate portfolio management and project oversight practices need to be established and followed. The PMO has no identified long-term funding within the USAID organization budget structure. Improvement in this area needs to focus on mission-critical systems first and then extend to other priority activities of the PMO.

In order to resolve these deficiencies, the CIO will prepare documentation to request increased funding and staffing of these important IT functional areas, as well as assess how current projects are governed to achieve optimal efficiency and effectiveness. Upon budgeting and proper staffing, a plan will be put into place to expeditiously resolve these issues.

Until such time as increased funding is provided, the CIO will try to resolve these issues given other operational and project priorities. To complicate this matter, USAID (and the CIO organization) is under tremendous pressure to reduce its budget, which will not only exacerbate these OIG concerns but also jeopardize the CIO's ability to provide basic IT operations and customer support services.

FMFIA MATERIAL WEAKNESSES

NUMBER OF FMFIA MATERIAL WEAKNESSES BY FISCAL YEAR				
Fiscal Year	Number at Beginning of Fiscal Year	Number Corrected	Number Added	Number Remaining at End of Fiscal Year
2002	4	1	–	3
2003	3	–	–	3
2004	3	1	–	2
2005	2	2	–	0

FMFIA Material Weaknesses		
Title	Fiscal Year First Identified	Corrective Action Date
USAID's Primary Accounting System	1988	2005
Information Resources Management (IRM) Processes	1997	2005

In September 2005, the MCRC agreed to close the two remaining material weaknesses, based on the following:

USAID's Primary Accounting System – Since 1988, it has been reported that the Agency's primary accounting system does not: (1) substantially comply with federal core financial systems requirements, (2) produce accurate and timely reports, and (3) contain adequate controls.

USAID made significant progress addressing, and ultimately closing, the material weakness in the primary accounting system by implementing a single Agency-wide financial system, known as Phoenix. The Phoenix System is based on Momentum® Financials, a commercial core financial system software product. The Joint Financial Management Improvement Program (JFMIP) has certified the software product to be compliant with federal core financial system requirements. USAID has configured this software product without any alterations to the baseline software and further validated through testing that the software complies with federal and Agency core financial system requirements.

USAID has implemented Phoenix at its headquarters, five pilot missions (Colombia, Egypt, Ghana, Nigeria, and Peru), and in February 2005, at missions in the Latin America and the Caribbean (LAC) region, including El Salvador, Honduras, Dominican Republic, Haiti, Jamaica, Nicaragua, Bolivia, and Guatemala. In June 2005, the upgrade to a Web-based version was completed. Europe and Eurasia (E&E) missions (Armenia, Bosnia & Herzegovina, Georgia, Hungary, Kazakhstan, Kosovo, Russia, Serbia & Montenegro, and Ukraine), then successfully converted to Phoenix in July 2005. As a result, 54 percent of the total number of transactions (count) and 48 percent of the total dollar value (amount) are accounted for in the Phoenix financial system. With the upcoming Asia and the Near East (ANE) deployment in December 2005, 74 percent of the total number of transactions (count) and 90 percent of the total dollar value (amount) are expected to be accounted for in Phoenix. Phoenix deployment will conclude with the missions in Africa in April 2006.

USAID and the Department of State recently upgraded their respective versions of the software, and are currently on the same version. Both Agencies plan to run from a common infrastructure from the Department of State's facility in Charleston, SC, by November 2005.

The Budapest staff enter their first transactions into Phoenix.

PHOTO: USAID/LISA FIELY

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

As previous reports have shown, over the last several years the Agency has taken major strides in correcting the issues identified in this eight-year-old weakness. Concerning the strategic issues, the Agency has implemented an effective strategically-oriented capital investment process by making the Business Transformation Executive Committee (BTEC), which provides Agency-wide leadership for initiatives and investments to transform USAID business systems and organizational performance, responsible for selecting, managing, and evaluating specific IT investments. The BTEC chartered the Capital Planning and Investment Control (CPIC) Subcommittee to advise on investment selection, considering potential risk, cost, and benefit, as well as priority in relation to other USAID investments. The CPIC Subcommittee recommended policies and procedures for IT CPIC, which were approved by the BTEC and published in the Agency's Automated Directives System. The CPIC Subcommittee was operational for the FY 2005 budget formulation cycle and used the published CPIC procedures for investment selection.

The Agency has implemented tactically-oriented program management and oversight practices with the formation of a PMO and the reorganization of the Management Bureau. The PMO is responsible for monitoring the progress of IT projects and developing standards, processes, and tools for improving project management practices. PMO staff work with the functional and IT leadership team assigned to projects to provide guidance on the use of these standards, processes, and tools. The office published a risk management plan, quality control plan, project management change control guidance, and a standard set of governance tools for project management and project status reporting. Although still maturing its processes, the PMO is a functioning organizational entity that has responsibility for critical Agency projects. Based on the improvements that have been achieved since this weakness was originally documented, discussions among multiple stakeholders, and a forthcoming audit of Agency IT practices, it has been determined that this weakness can be closed.

FEDERAL INFORMATION SECURITY MANAGEMENT ACT (FISMA)

FISMA, part of the Electronic Government Act of 2002, provides the framework for securing the federal government's information systems. Agencies covered by FISMA are required to report annually to OMB and Congress on the effectiveness of their information security programs. Specifically, FISMA requires agencies to have: (1) periodic risk assessments; (2) information security policies, procedures, standards, and guidelines; (3) delegations of authority to the CIO to ensure compliance with policy; (4) security awareness training programs; (5) procedures for detecting, reporting, and responding to security incidents; and (6) plans to ensure continuity of operations. FISMA also requires an annual independent evaluation of the Agency's information security program by the Agency IG. This report is separate from the PAR. Weaknesses found under FISMA are to be identified as a significant deficiency, reportable condition, or other weakness, and FISMA weaknesses that fall into the category of significant deficiency are required to be reported as a material weakness under the FMFIA. This year's evaluation concluded that USAID generally met the requirements of FISMA, and that the Agency has made many positive strides in addressing information security weaknesses. However, USAID still faces several important challenges in the areas of tested disaster recovery plans and security requirements. Based on last year's report, Congress awarded an A+ to USAID in recognition of the exceptional status of the information security program. USAID is the first and only federal agency to receive this distinction. USAID has developed an excellent risk-based information security program that includes processes, training, and security technologies, and the Agency expects to continue to receive high marks for its work in this area.

FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT (FFMIA)

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

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

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

The current target date for substantial compliance with FFMIA is the third quarter of FY 2006, which coincides with the completion of USAID's worldwide deployment of the financial management system. A detailed discussion of the financial systems framework, structure, and strategy is included in the Financial Section of this report.

FINANCIAL SYSTEMS REMEDIATION PLAN

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

The Agency relies extensively on OIG audit work to determine compliance with FFMIA. The results of the FY 2005 audit indicate that USAID has made substantial progress in becoming compliant and has two remaining items to address. The remaining deficiencies in the Agency's financial management systems and associated remedies are detailed on the following table:

USAID FFMIA REMEDIATION PLAN FY 2005 – FY 2006

Deficiencies & Remedies	Current Schedule Targets	Responsible Official	Status
Deficiency: MACS is not substantially compliant with JFMIP requirements for a core financial system. The MACS Auxiliary Ledger and interface to Phoenix do not sufficiently address compliance deficiencies. MACS does not support new E-Gov initiatives. The Agency's overseas operations do not have access to the Agency's integrated financial management system that is compliant with federal requirements, standards, and government-wide initiatives. **Remedy:** Implement Phoenix worldwide as the Agency's core financial system.	Third Quarter FY 2006	CFO	On target. Headquarters, five pilot missions, and the LAC and E&E regions are using Phoenix. The worldwide deployment schedule continues.
Deficiency: IG audit findings indicate that the Agency is not able to attribute costs to organizations, locations, programs, and activities. **Remedy:** Fully implement cost allocation model to allocate the costs of Agency programs to the operating unit and strategic objective level.	Third Quarter FY 2006	CFO	The cost allocation module incorporates the missions' indirect costs as they convert from MACS to Phoenix, and will be complete when Phoenix is fully implemented.

POSSIBLE FUTURE EFFECTS OF EXISTING EVENTS AND CONDITIONS

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

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

TECHNICAL LEADERSHIP

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

OPERATIONAL INTEGRATION

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

ALIGNMENT OF FOREIGN ASSISTANCE AND FOREIGN POLICY OBJECTIVES

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

THE EVOLVING ROLE OF FOREIGN ASSISTANCE

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

- Promoting transformational development
- Strengthening fragile states
- Providing humanitarian relief
- Supporting U.S. geostrategic interests
- Mitigating global and transnational ills to advance development. In fact, assistance actually may mask underlying instability or contribute to state fragility. Hence, it is critical to invest resources in these countries very carefully, with clear expectations as to what is possible in the short term, and with flexibility tailored to changing circumstances.

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

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

Humanitarian Response: relief from both manmade and natural disasters. Again, this is a concern for various (but not all) countries in each group. Humanitarian aid has been required at different times for relatively stable countries in Central America, Africa, and Asia, and also more typically for weak or failing states. Apart from disasters, there is also ongoing humanitarian aid in countries such as India and Bangladesh, which are stable and making progress. Again, these humanitarian concerns are arguably separate and distinct from the challenges of development and fragile states.

Specific Strategic Foreign Policy Priorities Pertaining to Countries: (e.g., key partners in the war on terrorism, Middle East Peace, and the Stability Pact) that call for funding such as Economic Support Funds (ESF—formerly known, quite aptly, as Security Supporting Assistance). These priorities are not necessarily separate and distinct concerns. Instead, for some of these countries the two core concerns—development progress (e.g., at times in Egypt, Jordan, Pakistan, Indonesia, Philippines, Costa Rica) and strengthening fragile states (in Iraq, Afghanistan, Haiti,

Kosovo) have been especially important from a foreign policy standpoint. In others (Israel, Turkey) neither development nor fragility are central programmatic concerns.

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

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

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

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

GLOBAL DEVELOPMENT ALLIANCE

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

USAID's GDA Secretariat has taken the lead in promoting alliance building through organizational and business process change since FY 2002. The primary goal of the GDA Secretariat is to increase the capacity of Agency staff and enhance the Agency business operations to develop and manage public-private alliances. This commitment has fostered increased cooperation between USAID and nontraditional partners, and has allowed USAID and its partners to achieve greater programmatic impact than any one organization could achieve on its own.

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

Secretary of State Powell launched the GDA Initiative in May 2001 to engage new stakeholders and harness the power of public-private alliances to address challenges in the developing world. While USAID has long engaged in successful partnerships, the GDA represents a more strategic approach to alliance building in order to bring significant new resources, ideas, technologies, and partners together to address development problems wherever USAID works. The GDA model is particularly tailored to allow the Agency to expand joint efforts with nontraditional partners.

In FY 2005, USAID operating units worldwide continued to mainstream public-private alliance building as a principal business model for the Agency. In the course of this mainstreaming process, USAID achieved impressive results in new or strengthened alliances with businesses, trade groups, foundations, universities, multilateral donors, faith-based organizations, indigenous groups, immigrant communities, and government agencies. The resources united were as diverse as the alliances themselves, including technology and intellectual property rights, market creation, policy influence, in-country networks, and expertise in development programs that ranged from international trade to biodiversity protection.

GOVERNMENT MANAGEMENT REFORM ACT–AUDITED FINANCIAL STATEMENTS

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

USAID's FY 2005 financial statements received an unqualified opinion – the best possible result of the audit process. This year marks the third consecutive year that USAID's financial statements have achieved such an opinion. USAID also, for the third year in a row, significantly accelerated the preparation and audit of the FY 2005 financial statements and associated reports. This indicates important progress toward the Agency's goal of providing timely, accurate, and useful financial information.

In relation to internal control, the Independent Auditor's Report cites one material weakness related to USAID's Accruals Reporting System. A material weakness is defined as a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing assigned functions. USAID has continuously improved its status in this area, from seven material weaknesses in FY 2002, three in FY 2003, and one in FY 2004.

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

The following table summarizes the weaknesses cited in the FY 2005 Independent Auditor's Report, as well as planned actions to resolve the problems.

SUMMARY OF INDEPENDENT AUDITOR'S REPORT FINDINGS FY 2005
(Refer to Independent Auditor's Report Section)

Material Weakness	Planned Corrective Actions	Target Correction Date
Accruals Reporting System Needs Improvement	Appropriate actions have already been taken to correct the interface that created the problem. As part of our first quarter FY 2006 accruals cycle and financial statement preparation process, the Bureau for Management, Office of the Chief Financial Officer (M/CFO) will evaluate accurate production performance of the interface to deliver accurate information to the Phoenix general ledgers.	February 15, 2006
Reportable Condition	**Planned Corrective Actions**	**Target Correction Date**
Process for Reconciling Fund Balance with U.S. Treasury Needs Improvement (Repeat Finding)	M/CFO has issued guidance on reconciliation processing and will work to enhance guidance on Phoenix reconciliations. However, improved Phoenix reconciliations will require enhance-ments to the Phoenix software as related to reconciliations. The Phoenix team is aware of needed improvements on reconciliation processes and will be working the issues in FY 2006.	September 30, 2006
Intragovernmental Transactions Remain Unreconciled (Repeat Finding)	Past practice has been focused on conducting transaction reviews at year-end. We will accelerate our processes to conduct quarterly evaluations of Trading Partner 99 transactions.	February 15, 2006
Process for Recognizing and Reporting Overseas Accounts Receivable (Repeat Finding)	Actions to improve will continue.	September 30, 2006
Noncompliance with Laws and Regulations	**Planned Corrective Actions**	**Target Correction Date**
Federal Financial Management Improvement Act of 1996 (FFMIA) (Repeat Finding)	Detailed in FFMIA Remediation Plan table in previous section.	June 30, 2006

PROGRESS MADE ON ISSUES FROM FY 2004 GMRA AUDIT:

USAID has taken extensive and aggressive actions during FY 2005 to address the weaknesses from the FY 2004 audit, as indicated in the table below.

SUMMARY OF INDEPENDENT AUDITOR'S REPORT FINDINGS FY 2004		
Material Weakness	**Corrective Actions**	**Correction Date**
Process for Reviewing and Reporting Quarterly Accrued Expenditures and Accounts Payable	Accruals training has been updated in both classroom and computer-based venues. In addition, an accruals calculator tool has been developed to assist CTOs in calculating accruals. Actions to improve training continue.	December 31, 2005
Reportable Condition	**Corrective Actions**	**Correction Date**
Certification Process for Mapping Strategic Objectives to Performance Goals	The Agency instituted a new process for certifying strategic objective linkages to the performance goals of the Joint State-USAID Strategic Plan.	October 31, 2005
Process for Reconciling Fund Balance with U.S. Treasury (Repeat Finding)	The CFO continues to improve the process to properly document the rationale for adjusting entries between the Fund Balance with Treasury and the Standard General Ledger. A CFO Policy bulletin was issued to all Accounting Stations reinforcing the requirement to perform full monthly reconciliations of Agency balances, by appropriation, with Treasury.	December 31, 2005
Process for Recognizing and Reporting Accounts Receivable (Repeat Finding)	The CFO continues to implement the policies and procedures, established in FY 2004, for overseas missions and the Office of Acquisition and Assistance to immediately recognize accounts receivable. The CFO has revised and implemented new collection letters and prepared and implemented new desk procedures regarding the transfer, cross-servicing, and tracking of delinquent debt.	September 30, 2005
Intragovernmental Reconciliation Process	The CFO has implemented the process of conducting quarterly reconciliation efforts with federal trading partners with whom USAID has differences greater than $100 million. This is an ongoing work process/procedure and resolution of these differences depends on the timeliness of trading partners in providing their data, data quality, and data compatibility with USAID's data. USAID also participates in an intragovernmental subcommittee. Since intragovernmental reconciliations are a government-wide issue, a working group has been established to identify underlying issues and ways to improve this process.	September 30, 2005
Process for Analyzing and De-obligating Unliquidated Obligations	Improved policies and procedures have been implemented, including clarification of responsibilities for analyzing and de-obligating funds.	September 30, 2005
System for Preparing Management's Discussion and Analysis (MD&A)	USAID continues to refine its process for collecting timely and accurate performance information for the PAR MD&A. The most significant improvement is in the area of the performance information collected at the Mission level through the Annual Report (AR) application, which will be collected on a semi-annual (as opposed to annual) basis. Twice-yearly reporting will permit operating units to project data for the full year based on actual data halfway through the year. These projections, based on first half actual data, will be included in the draft PAR MD&A, which is submitted to OIG in October. This data, along with the inclusion of the congressionally-mandated OPIN data, provides real-time performance information for the PAR. Performance information will then be updated when final AR data is available, and will be included in the PAR Addendum published each Spring.	September 30, 2005

IMPROPER AND ERRONEOUS PAYMENTS

In an ongoing effort to reduce the occurrence of improper payments, with the goal of eliminating all erroneous payments, USAID continues to monitor all its programs and payment activities.

All USAID grant and contract program payment activities are closely monitored to ensure compliance with the provisions of the Improper Payments Information Act (IPIA).

In FY 2005, OIG audited grants and contracts totaling $13 billion and sustained questioned costs of $5.9 million, which is approximately a .045 percent IPIA payment rate. Also, this year the Agency recovered $4.4 million or 98 percent of its erroneous payments identified under the OIG Audit Follow-Up Program.

USAID has recognized the need to strengthen internal controls and to better monitor its high volume and high profile procurement and payment activities. The Iraq Reconstruction, the Afghanistan Assistance, and the Tsunami Relief and Reconstruction Programs are three examples of high-profile Agency activities. The CFO has developed reports for each of these programs and collects and records all pertinent data, obligation, and payment activity. This information is compiled monthly and is disseminated to stakeholders and internal and external users as a tool to monitor program activities and increase transparency.

IPIA ANALYSIS FOR GRANT/CONTRACT PROGRAMS

Period	Audited Amount	Sustained Amount	IPIA Error Rate	Recovered %
FY 2002	$2,000,000,000	$4,000,000	0.200%	99.0%
FY 2003	$1,400,000,000	$5,400,000	0.400%	100.0%
FY 2004	$13,000,000,000	$7,200,000	0.055%	100.0%
FY 2005	$13,000,000,000	$5,900,000	0.045%	98.0%

PURCHASE AND TRAVEL CARD USAGE

PURCHASE CARDS

On average, 246 employees, or three percent, had active purchase card accounts in FY 2005. Approximately 37 purchase card accounts were canceled in FY 2005. Approximately 46 new purchase card accounts were activated.

On average, the ratio of approving officials to cardholders is 1:2. The total dollars spent in FY 2005 using purchase cards was $6.3 million. USAID earned approximately $39,478 in total rebates in FY 2005.

There were no disciplinary actions taken or cases reported to the Agency IG for fraudulent, improper, or unauthorized use of the purchase card. The purchase card dispute process between USAID and Citibank that is outlined in the Worldwide Purchase Card Manual minimizes losses from possible erroneous payments.

TRAVEL CARDS

There are 2,113 active Individual Billed Account (IBA) travel cards. The USAID policy is to issue travel cards to travelers who travel two or more times per year. There are 72 Centrally Billed Account (CBA) travel cards used to purchase airline tickets only.

USAID spent more than $15.1 million in FY 2005 using travel cards. The rebates earned on travel cards exceeded $44,000 in FY 2005. Monthly delinquency rates for travel cards ranged from a low of one percent to a high of 4.65 percent for the IBA, and from 0.11 percent to 0.8 percent for the CBA. There were no disciplinary actions taken during FY 2005 related to the travel card.

FINANCIAL HIGHLIGHTS

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

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

OVERVIEW OF FINANCIAL POSITION

ASSETS. The Consolidated Balance Sheet shows the Agency had Total Assets of $24.7 billion at the end of 2005. This represents an 10 percent increase over previous year's Total Assets of $24 billion. This is primarily the result of an increase in appropriations recieved during FY 2005.

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

	2005	2004	2003
Fund Balance with Treasury	$17,503,843	$15,854,926	$14,215,414
Loans Receivables, Net	5,100,249	6,108,252	5,696,597
Accounts Receivables, Net	902,863	1,100,968	1,200,387
Cash, Advances, and Other Assets	1,063,570	847,807	623,477
Property, Plant and Equipment, Net & Inventory	140,294	117,718	88,360
Total	$24,710,819	$24,029,671	$21,824,235

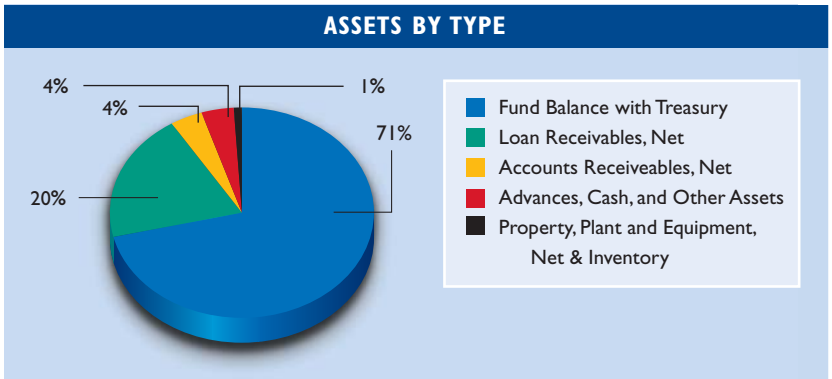
Fund Balances with Treasury and Loans Receivable, Net comprise the majority of USAID's assets. Together they account for over 90 percent of total assets for 2005, 2004, and 2003. USAID maintains funds with Treasury to pay its operating and program expenses. These funds increased by $1.6 billion (10 percent).

Loans Receivables, Net of estimated write-offs due to loan defaults, result from the disbursement of funds under the Direct Loan Programs. Loan Receivables experienced a 17 percent decrease from FY 2004.

The largest percentage change in assets line items on the Balance Sheet occurred in Advances and Prepayments, an increase of 34 percent (from $559 million in FY 2004 to $750 million in FY 2005). Nearly all of USAID advances consist of funds disbursed under letter of credit to contractors or grantees, administered by the U.S. Department of Agriculture (USDA).

The pie chart below presents USAID's asset type by percentage for FY 2005.

Chart 1: Percentage of Assets by Type, FY 2005



LIABILITIES. As presented on the Consolidated Balance Sheet, the Agency had almost $11 billion in Total Liabilities at the end of 2005. This amount represents a $589 million, or six percent increase in Total Liabilities from the prior year. Liabilities are summarized in the following table *(dollars in thousands):*

Table 2:

	2005	2004	2003
Debt & Due to U.S. Treasury	$ 5,734,263	$ 6,145,006	$ 5,748,890
Accounts Payable	3,204,824	2,373,146	1,870,077
Loan Guaranty Liability	1,562,485	1,039,937	1,159,415
Other Liabilities	444,571	798,847	553,500
Total Liabilities	$10,946,143	$10,356,936	$ 9,331,882

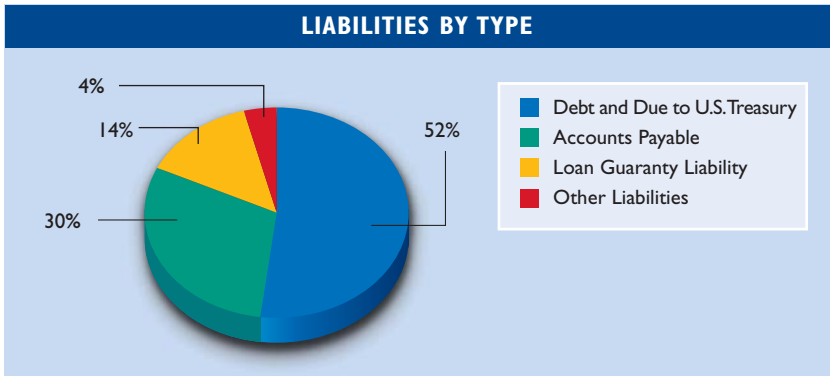
As reflected in Table 2, Credit Program Liabilities, consisting mainly of Credit Program Debt, due to U.S. Treasury and Loan Guaranty Liability account for most of USAID's Total Liabilities for 2005, 2004 and 2003. Debt and Due to Treasury combined represented 52 percent of Total Liabilities for FY 2005. The Loan Guaranty Liability comprised 14 percent of Total Liabilities for FY 2005.

Debt and Due to Treasury combined decreased by seven percent, or $411 million, from FY 2004. Loan Guaranty Liability, which is associated with USAID's guarantees of loans made by private lending institutions, increased by 50 percent or by $522 million from FY 2004.

Accounts Payable increased by 35%, or $831 million from FY 2004. The primary reason is the increase in accrual estimations at the end of 2005.

The pie chart below presents USAID's percentage of liabilities by type for FY 2005 *(dollars in thousands):*

Chart 2: Percentage of Liabilities by Type, FY 2005



ENDING NET POSITION. Net Position is the sum of the Unexpended Appropriations and Cumulative Results of Operations. USAID's Net Position at the end of 2005 on the Consolidated Balance Sheet and the Consolidated Statement of Changes in Net Position was $13.7 billion, a $91.9 million increase from the previous fiscal year. Unexpended Appropriations of $13 billion or 97 percent represent funds appropriated by the Congress for use over multiple years that were not expended by the end of FY 2005.

RESULTS OF OPERATIONS

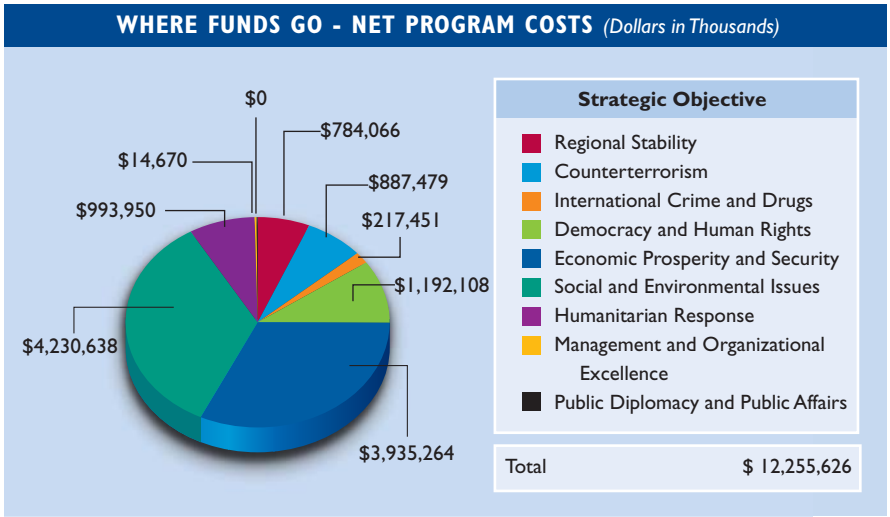
The results of operations are reported in the Consolidated Statement of Net Cost and the Consolidated Statement of Changes in Net Position.

The Consolidated Statement of Net Cost presents the Agency's gross and net cost for its strategic goals. The net cost of operations is the gross (i.e., total) cost incurred by the Agency, less any exchange (i.e., earned) revenue. The accompanying notes to the Statement of Net Cost disclose costs by strategic goals and responsibility segments, and by intragovernmental costs and exchange revenues separately from those with the public for each strategic goal and responsibility segment. A responsibility segment is the component that carries out a mission or major line of activity, and whose managers report directly to top management. For the Agency, the technical and geographical bureaus (e.g., Global Health or Latin America/Caribbean (LAC)) are considered a responsibility segment. Information on the bureaus can be found in Note 18.

The presentation of program results by strategic goals is based on the Agency's current Joint State-USAID Strategic Plan established pursuant to the Government Performance and Results Act (GPRA) of 1993.

The Agency's total net cost of operations for 2005, after intra-agency eliminations, was $12.3 billion. The strategic goal, Social and Environmental Issues, represents the largest investment for the Agency at 34.5 percent of the Agency's net cost of operations. The net cost of operations for the remaining goals ranges from 0.1 percent to 32.1 percent. The chart on the adjoining page displays a breakout of net cost by strategic goal.

Chart 3: Net Program Costs by Strategic Goal, FY 2005

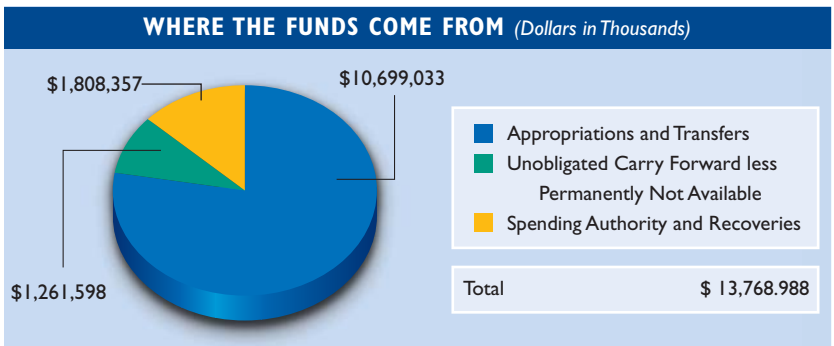


The Consolidated Statement of Changes in Net Position presents the accounting items that caused the net position section of the balance sheet to change since the beginning of the fiscal year. The statement comprises two major components: Unexpended Appropriations and Cumulative Results of Operations.

Cumulative Results of Operations amount to $760 million as of September 30, 2005, an increase of 15 percent from the $660 million balance a year earlier. This balance is the cumulative difference, for all previous fiscal years through 2005, between funds available to USAID from all financing sources and the net cost of USAID.

The Combined Statement of Budgetary Resources provides information on how budgetary resources were made available to the Agency for the year and their status at fiscal year-end. For the year, USAID had total budgetary resources of $14.8 billion, an increase of 21 percent from the 2004 level. Budget authority of $11 billion, consisted of $10.1 billion for appropriations and $590 million in net appropriation transfers. USAID incurred obligations of $10.5 billion for the year, a 14 percent increase from the $9.2 billion of obligations incurred during 2004.

Chart 4 below, reflects Agency budgetary resources for 2005.



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

LIMITATIONS TO THE FINANCIAL STATEMENTS

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

USAID is providing support to improve the health of mother and children in mountainous districts of Quang Tri Province, Vietnam. PHOTO: MICHAEL BISCEGLIE

Community-based integration for children with disabilities in Kon Tum province, Central Highland of Vietnam.
PHOTO: BRETT JONES, USAID VIETNAM