

<b>Unexpended Resources and the Bipartisan Economic Security Plan Allow Large Increase in Investments in Job Training and Other Dislocated Worker Services</b>	
	<b>Budgetary Resources</b> (In millions of dollars)
<b>2001</b>	
Amount Spent.....	4,525
<b>2002</b>	
New Budget Authority.....	5,631
Unspent from prior years .....	1,532
National Emergency Grants (NEGs)—Bipartisan Economic Security Plan.....	4,000
Total.....	11,163
<b>Amount expected to be spent<sup>1</sup> .....</b>	<b>6,827</b>
Amount expected not to be spent .....	4,336
<b>2003</b>	
New Budget Authority.....	4,976
Unspent from prior years .....	4,336
(183% more than carried into 2002)	-----
<b>Total that Can be Spent .....</b>	<b>9,312</b>
<b>(36% more than expected to be spent in 2002)</b>	
<sup>1</sup> Assumes that \$1 billion of the \$4 billion in NEGs will be spent in 2002.	

While the Administration is supporting a large near-term increase in funds for dislocated worker assistance, the 2003 Budget is launching a long-term reform of the federal government's overlapping training and employment programs. The federal government has at least 48 training and employment programs scattered around 10 agencies. Although the programs vary considerably, their common goal is to improve participants' employment and earnings. However, no consistent measure exists to compare results across these programs. Definitions vary, data quality is uneven and collected using different statistical techniques. Many federal training programs tend to adopt easy performance measures (such as participants served) rather than outcomes like landing and keeping a job or earnings increases.

### The Federal Government's Multiple Job Training Programs

Agency (and selected programs)	Number of Programs		Target Group	2003 (In millions of dollars)	Cost Per Participant
	2002	2003			
<b>Department of Labor</b> .....	17	9		<b>6,892</b>	
Dislocated Workers.....			Laid-off workers	1,383	\$1,800
Adult Employment and Training.....			All adults	900	\$2,500
Youth Activities .....			Low-income youth	1,001	\$2,530
Job Corps.....			Low-income youth	1,532	\$31,700
<b>Department of Education</b> .....	10	6		<b>4,503</b>	
Adult Education .....			Adults and U.S. immigrants	575	\$493
Vocational Education .....			High-school, college students	1,180	Unavailable
Vocational Rehabilitation Grants to States.....			People with disabilities	2,616	\$2,042
<b>Department of Health and Human Services</b> .....	5	5		<b>1,618</b>	
Temporary Assistance to Needy Families .....			Low-income families	1,515	Unavailable
Refugee Assistance.....			Newly-arrived refugees	57	Unavailable
<b>Department of Veterans Affairs</b> .....	1	2		<b>779</b>	
Vocational Rehabilitation and Employment Services and Benefits.....			Unemployed veterans with service-connected disabilities	602	\$10,050
Grants for Veterans Employment.....			Veterans	177	Not Applicable (transfer)
<b>Other</b>					
Department of Agriculture .....	1	1	Food Stamp recipients	259	\$175
Department of the Interior .....	10	1	American Indians and Alaska Natives	9	Various programs; no single estimate
Department of Housing and Urban Development.....	1	1	High-school dropouts	65	\$20,000
Department of Defense.....	1	1	High-school dropouts	63	\$15,609
Appalachian Regional Commission	1	1	Low-income Appalachians	8	Unavailable
Denali Commission.....	1	1	Low-income Alaska Natives	3	\$2,770
<b>Total</b> .....	<b>48</b>	<b>28</b>		<b>14,199</b>	

The 2003 Budget will launch a multi-year effort to reform job training programs, target resources to programs with documented effectiveness, and eliminate funding for ineffective, duplicative, and overlapping programs. The proposed reforms would reduce the number of job training programs from 48 to 28 (see table on federal job training programs). Reforms include:

- *Expanding an effective program.* The 2003 Budget proposes \$1.5 billion for Job Corps, a residential vocational training program for disadvantaged youth. Although Job Corps is DOL's costliest program, with a unit cost of roughly \$31,700 per service year, research has demonstrated that it is a cost-effective federal investment. The 2003 Budget provides a five percent increase above 2002, increases funding for teacher pay and new centers, and supports 122 residential training centers—an increase of four centers over 2001–2002.



The Job Corps provides students with skills that help them secure jobs such as electrical technician.

- *Reauthorizing WIA.* In 2003, the WIA's authorization expires, providing the Administration an opportunity to evaluate critically the current program structure, financing, and performance. The Administration will undertake that work in the coming year, and the 2004 Budget will outline a proposal to further consolidate training programs.

- *Transferring veterans' employment programs to the Department of Veterans Affairs (VA).* The 2003 Budget will transfer \$197 million to VA that DOL currently uses to finance three veterans employment programs. This proposal would implement a recommendation of the 1999 Congressional Commission on Servicemembers and Veterans Transition Assistance, which concluded that DOL's programs do not serve veterans well. With VA demonstrating its commitment by demanding employment results, the programs will better serve veterans' employment needs.

#### National Skill Standards Board

The National Skill Standards Board (NSSB) is intended to help industries develop voluntary skill standards for occupations in 15 industry clusters. Since its inception in 1995, NSSB has spent \$45 million to help create standards in occupations that include bellboys, bus boys, and waiters. The 28-page standard for bus boys includes detailed instructions for clearing tables. The manufacturing industry standard includes as a skill "be depended on not to steal equipment and materials." The 2003 Budget terminates funding for the NSSB.

- *Closing ineffective programs.* The 2003 Budget will end funding for several training programs that have a history of poor performance, or where the federal role is inappropriate. For example, no funding is requested for the Migrant and Seasonal Farmworker program, which has demonstrated little success in helping these low-income workers secure good jobs outside of agriculture. Roughly three-fourths of this program's participants never enroll in training. The population

previously served by this program is eligible for the WIA Adult Activities program, the Migrant High School Equivalency Program (HEP) and College Assistance Migrant Program (CAMP), which help migrant students complete high school and succeed in college. The budget also ceases funding for the National Skill Standards Board, whose funding for industry skill standards has not been a cost-effective use of taxpayer dollars.

### **Reform of Worker Benefit Programs**

Through the Office of Workers' Compensation Programs (OWCP), DOL provides benefits to individuals who are unable to work due to occupational injury or illness. The Federal Employees' Compensation Act (FECA) and Black Lung Benefits Act (Black Lung) programs provide cash and medical benefits along with rehabilitation services to disabled federal employees and coal miners, respectively.

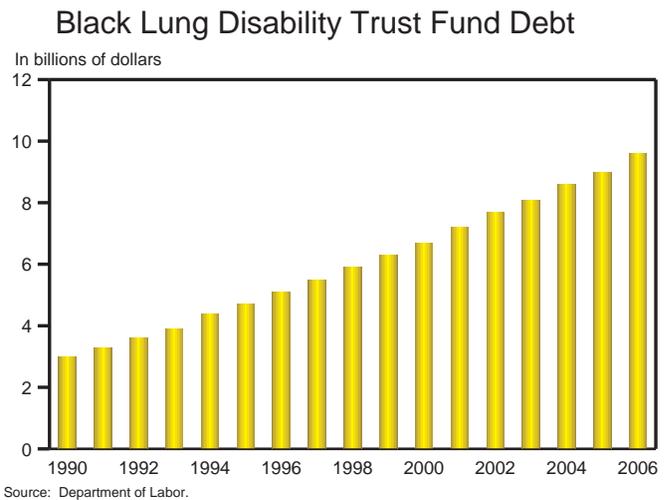
DOL's Inspector General and others have proposed reforms for the FECA program to identify and prevent fraud, reduce the number of frivolous claims, and improve customer service. The Black Lung Disability Trust Fund, from which Black Lung benefits are paid, faces a mounting \$8 billion debt. In 2002, the Trust Fund's interest payments on its debt alone will not only surpass the program's benefit and administrative costs, but also its total excise tax revenues.

**FECA improvements.** In 2003, the budget proposes four reforms to improve FECA's management. They include changes to:

- *Strengthen program integrity.* In 2003, OWCP will continue efforts to review claimants periodically to: determine if claimants still are unable to work; prevent overpayments to individuals and medical providers; and review the appropriateness of medical services. Periodic claims reviews have saved an estimated \$500 million since 1992.
- *Implement "full cost" budgeting for FECA.* The budget amends FECA to allow DOL to add an administrative surcharge to the amount billed to federal agencies for their FECA compensation costs. This change requires that federal agencies bear the full costs (administrative as well as benefit) of their employees' FECA claims, bolstering their incentive to improve workplace safety.
- *Discourage frivolous claims.* The budget proposes to amend FECA to move the waiting period for benefits to immediately following an injury, and apply it to all claims in line with every state workers' compensation system. This change would deter illegitimate claims.
- *Promote benefit equity.* Because FECA benefits are tax-free, they are, on average, about 25 percent more generous than an individual could receive under the federal retirement system, possibly providing an incentive for individuals to remain on the FECA rolls past when they would otherwise have retired. The budget does not propose to reduce the benefits of any current FECA beneficiaries. However, for future FECA beneficiaries, the budget proposes to change the program so that individuals over age 65 receive the same benefits as are available under federal retirement programs.

**Black Lung reforms.** The 2003 Budget will attack two longstanding problems in the Black Lung program. The Administration will:

- *Restructure the debt.* In the program's early years, Black Lung's excise tax revenue was not enough to fund the program, so DOL borrowed from the Treasury to cover the shortfall. Although excise tax revenue has generally been sufficient to cover medical and income support costs since 1990, the revenue has not been sufficient to cover the interest payments due on Treasury borrowing dating from 1978. To date, DOL has repaid none of the principal and has been forced to borrow additional funds just to meet its interest payments on what has grown to be an \$8 billion debt (see accompanying chart). The Administration will propose legislation to restructure the Trust Fund's debt, prevent further growth, and eventually retire it.
- *Consolidate administration.* The budget proposes to consolidate administration of all Black Lung benefit cases in DOL, relieving the Social Security Administration of the duty to administer claims filed prior to 1974 and improving administrative efficiency.



## Promoting Voluntary Compliance with Labor Laws

### Easing DOL's Regulatory Burden

A key part of helping employers comply with regulatory requirements is ensuring that the regulations are reasonable and comprehensible. OSHA's "means of egress" rule sets requirements for emergency exits but is filled with jargon only an attorney could love. The rule warns employers that no "furnishings, decorations, or other objects shall be so placed as to obstruct exits, access thereto, egress therefrom, or visibility thereof," rather than saying simply that emergency exits must not be blocked. OSHA is simplifying its rules to cut out jargon and make them understandable to small businesses. Also, DOL is reviewing all regulations it planned to impose on small and large businesses, states and localities, community organizations, and the public to remove rules that are outdated or overly burdensome. As a result, DOL has reduced by 25 percent the number of regulatory actions it has planned for the next year.

DOL enforces more than 180 worker protection laws. However, its "cop on the beat" activities have their limits. The Occupational Safety and Health Administration (OSHA), for example, can conduct about 36,000 inspections per year. Although the number looks impressive, it also means that the agency can reach each workplace only once every 167 years. Through its electronic compliance assistance tools, however, OSHA can help millions of employers assess and improve the safety of their workplaces. Helping employers to comply with workplace laws and regulations is DOL's most cost-effective way to protect workers from on-the-job injuries and illnesses.

Compliance assistance tools, such as self-audits, are designed to encourage employers to voluntarily correct violations before employees are hurt. If given clear, timely, and accurate information on legal and regulatory requirements, the vast majority of employers will comply voluntarily. On-line tools, as well as training and technical assistance, help employers and workers understand labor laws and requirements. For example, “eTools” are Web-based, menu-driven modules designed to help employers put occupational safety and health regulations into effect. The 2003 Budget request includes an estimated \$188 million for compliance assistance efforts of OSHA, the Mine Safety and Health Administration (MSHA), and the Pension and Welfare Benefits Administration (PWBA).

### Improving Performance

Wide-ranging reforms proposed in the 2003 Budget are designed to improve performance of many of DOL’s existing programs and attack longstanding problems.

DOL’s program to certify foreign workers as eligible for permanent employment in the United States can take employer applicants up to six years to navigate as they complete the paperwork that allows prospective workers to petition for work-based visas. While this complex, labor-intensive process drags on, applications pile up and many foreign workers awaiting certification are employed in violation of U.S. laws. The Administration is taking action to overhaul this broken program and proposing legislation in the 2003 Budget to redirect certain existing employer application fees to eliminate the large backlogs. The new application process is expected to take three weeks for most applications and a maximum of six months’ processing time for certification applications that are audited.

The Administration proposes a two-pronged solution that would:

- *Introduce regulatory reform.* During 2002, DOL will propose regulations to reform the permanent alien labor certification program and prevent future backlogs by automating application processing and reducing the state workload after 2003. DOL staff would assume processing responsibilities, and most determinations would be made within 21 days of the date an application is filed.
- *Redirect H-1B fees.* Legislation would redirect the portion of DOL’s revenues from the existing H-1B fee that currently supports an ineffective training grant program. The \$138 million grants program—which has proven

#### H-1B Training Grants

The H-1B Training Grant Program is supposed to train U.S. workers for jobs in which labor shortages have caused employers to hire foreign workers through the H-1B visa program. These highly educated workers typically work in the high-tech and health care industries. Unfortunately, DOL’s \$138 million H-1B Training program, which is financed through a \$1,000 fee paid by employers, never has filled and has no prospect of filling these labor shortages. At times, funds wind up training workers for decidedly low-tech jobs. One grant financed training for cable installers; another trained licensed practical nurses; while a third was open only to union members in the entertainment industry. The budget will take the program’s H-1B fees funding and redirect it to eliminate large backlogs in the permanent alien labor program, thereby better serving workers and employers alike.

ineffective—would be redirected to clear the backlog for the permanent certification program at the state and federal levels.

### Strengthening Management

In 2003, DOL will continue to address its management challenges to further its contributions to a strong U.S. workforce. Secretary Chao is aggressively implementing the President's Management Agenda. In August 2001, the Secretary created the Management Review Board (MRB) to combat agency decentralization and ensure a coordinated, Department-wide approach to promoting management reforms. MRB's accomplishments include an overhaul of DOL's performance appraisal system for managers and executives to evaluate personnel against progress on management agenda items. In addition, MRB is consolidating DOL's disparate e-mail systems to improve efficiency and customer service.

#### Erroneous Unemployment Insurance Benefit Payments

In 2001, the Unemployment Insurance system paid \$27 billion in benefits to unemployed workers. DOL estimates that benefit overpayments were about \$2.3 billion—or approximately \$200 per beneficiary. An IG investigation found that a Las Vegas man created 13 fictitious companies and submitted UI claims for 36 fictitious claimants. He was sentenced to prison and ordered to pay \$230,500 in restitution.

Stewardship of taxpayer funds requires systematic policies and procedures to ensure sound financial management of federal programs. In the UI program, DOL and the states operate programs to detect and pursue recovery of overpayments, but more work must be done. The 2003 Budget includes two proposals to cut UI waste and fraud. First, \$2 million is requested for the Inspector General to uncover fraudulent benefits schemes and train states to detect and reduce overpayments. Second, \$10 million is requested to finance state efforts to use existing databases to eliminate fraudulent payments to employed workers, illegal aliens, and fictitious employers.

DOL is actively implementing the President's faith-based and community initiative. It aims to improve delivery of social services by drawing on the strengths of faith-based and community groups and ensuring that these organizations compete for federal grant funds on a level playing field. To encourage greater competition and participation in DOL's grant programs by these organizations, DOL scrutinized its program applications to strip away barriers. For instance, DOL discovered that under the Women in Apprenticeships and Nontraditional Occupations (WANTO) program, applicants were required to demonstrate a "history of commitment to economic and social justice." DOL dropped this ambiguous and restrictive language, and received 37 applications, more than twice the average received in recent years. Of the 11 grant recipients, four were new applicants who never had received a WANTO grant. One of the new grantees is the Access Agency of Willimantic, Connecticut, which is connecting Spanish-speaking women to language programs and employers for career-ladder job opportunities.

Initiative	2001 Status
<p><b>Human Capital</b>—DOL has completed a Workforce Restructuring Plan that demonstrates its full awareness of certain skills and performance gaps, and is taking action to address its needs. DOL has overhauled the performance appraisal system for its 2,100 managers and senior executives. Also, DOL effectively uses succession planning, and retention and recruitment bonuses to retain and hire effective employees. In 2003, DOL will implement significant restructuring to better align its workforce with its mission. It will eliminate 373 positions that are unnecessary, resulting in savings of \$31 million. It also will consolidate five duplicative public affairs offices in DOL's agencies into the Secretary's Office, eliminating nine positions at savings of \$1 million.</p>	●
<p><b>Competitive Sourcing</b>—DOL has not effectively examined its workforce to determine all the tasks that its employees perform that are available commercially, including certain administrative and financial activities. Further, DOL has not identified activities necessary to meet the Administration's 2002 or 2003 competitive-sourcing targets. Possible areas to consider include training specialists, administrative personnel, and claims processing clerks. To get on track and take advantage of competitive sourcing, DOL will reevaluate all of its positions and reclassify some so that only those positions that are truly "inherently governmental" are removed from consideration for competitive sourcing. DOL also will finalize its plan to compete or directly convert at least 140 positions in 2002 and 280 in 2003 to meet the Administration's two-year 15 percent goal, in an effort to eventually competitively source 50 percent of its commercial activities.</p>	●
<p><b>Financial Management</b>—Although DOL has received "unqualified" opinions from independent auditors on its financial statements since 1997, it has identified two small systems in its Wage &amp; Hour Division that do not comply with accepted federal standards for financial management and internal controls. Recognizing the importance of financially sound systems, DOL will correct these problems in 2002. DOL will improve its oversight of the performance of its grantees and contractors and increase its auditing and technical assistance to states to identify fraud and reduce erroneous payments in Unemployment Insurance.</p>	●
<p><b>E-Government</b>—DOL's information technology (IT) is built on a strong enterprise architecture and planning process. DOL is the only federal agency with Department-wide IT financing to ensure that its investments are cost-effective and serve the entire organization mission. DOL has used IT to serve citizens better. For example, OSHA accepts health and safety complaints over the Internet; individuals can use the Internet to discover lost pensions; and a pilot project allows people to calculate approximate retirement benefits on line. In 2003, DOL will continue to lead a government-wide project for Eligibility Assistance On line, which provides citizens easier access to information on benefits and services for which they are eligible. DOL also will increase opportunities for citizens, businesses, and unions to electronically file claims, reports, and other documents for programs and benefits administered throughout much of DOL.</p>	●

Initiative	2001 Status
<p><b>Budget/Performance Integration</b>—The data that DOL collects are often of poor quality and reliability. Also, often data are not available soon enough to tie funding to performance. Much of the data come from states and localities, and the challenges that DOL faces are due in part to problems there. Starting in 2002, DOL will integrate planning and budgeting in its annual performance plan. It will demonstrate significant progress toward aligning programs' funding with their performance. In that spirit, DOL will work with other agencies, including the Department of Education, to develop a crosscutting performance measure for all federal job training programs. Current job training measures vary widely among programs, and some programs are better than others in managing based on performance data.</p>	

### Department of Labor

(In millions of dollars)

	2001	Estimate	
	Actual	2002	2003
<b>Spending:</b>			
Discretionary Budget Authority:			
Training and Employment Services <sup>1</sup> .....	5,635	5,457	4,981
<i>Bipartisan Economic Security Plan National Emergency Grants</i>			
<i>(non-add)</i> .....	—	4,000	—
Unemployment Administration <sup>2</sup> .....	2,434	2,788	2,728
Employment Service/One-Stop Career Centers .....	1,016	987	958
Community Service Employment for Older Americans .....	440	445	440
Occupational Safety and Health Administration .....	438	457	449
Mine Safety and Health Administration .....	259	268	264
Employment Standards Administration .....	384	393	313
Pension and Welfare Benefits Administration .....	111	114	121
Bureau of Labor Statistics .....	464	489	511
Veterans' Employment and Training			
Existing Law .....	213	214	212
Legislative proposal <sup>3</sup> .....	—	—	-197
Bureau of International Labor Affairs .....	148	148	55
Information Technology .....	37	50	74
Office of Disability Employment Policy .....	23	38	47
<i>All other programs (non-add)</i> .....	418	432	455
Office of the Inspector General .....	58	60	65
ETA Program Administration .....	167	169	179
Departmental Management .....	181	190	197
Pension Benefit Guaranty Corporation .....	12	12	13
Subtotal, Discretionary budget authority adjusted <sup>4</sup> .....	12,020	12,280	11,411
Remove contingent adjustments .....	-92	-95	-82
Total, Discretionary budget authority .....	11,928	12,185	11,329

**Department of Labor—Continued**  
(In millions of dollars)

	2001	Estimate	
	Actual	2002	2003
Emergency Response Fund, Budgetary Resources:			
National Emergency Grants (Dislocated Workers).....	25	—	—
New York State Workers' Compensation .....	—	175	—
Other .....	5	45	—
Total, Emergency Response Fund, Budgetary resources .	30	220	—
Mandatory Outlays:			
Unemployment Insurance/Employment Service <sup>5</sup> .....	27,989	44,594	40,795
Black Lung Disability Benefits Act:			
Existing Law .....	1,016	1,039	1,038
Legislative proposal (debt refinancing) .....	—	—	1,606
Legislative proposal (transfer from SSA) .....	—	—	420
Federal Employees' Compensation Act (FECA):			
Existing Law .....	124	145	209
Legislative proposal .....	—	—	-3
H-1B Training and Administration:			
Existing Law .....	24	165	156
Legislative proposal .....	—	—	80
Pension Benefit Guaranty Corporation <sup>6</sup> .....	-1,080	-1,330	-1,383
All other programs.....	781	1,464	1,093
Subtotal, Mandatory outlays adjusted <sup>4</sup> .....	28,854	46,077	44,011
Remove contingent adjustments.....	-3	-6	-6
Total, Mandatory outlays .....	28,851	46,071	44,005

<sup>1</sup> Training resources shown in 2003 exclude additional, significant, carryover funds from prior years' appropriations, including an expected \$3 billion of Bipartisan Economic Security Plan National Emergency Grants funding that will be carried into 2003. New budget authority, plus these unexpended balances—estimated at over \$9 billion—will support a substantially higher level of job training services in 2003 compared to 2002.

<sup>2</sup> 2001 and 2002 include estimated use of workload contingency funds triggered on during economic slowdown.

<sup>3</sup> Transfer all but one grant program to the Department of Veterans Affairs; \$14 million covers the retention of 51 FTE to oversee USERRA and veterans' preference requirements and the Veterans Workforce Investment Act program.

<sup>4</sup> Adjusted to include the full share of accruing employee pensions and annuitants' health benefits. For more information, see Chapter 14, "Preview Report," in *Analytical Perspectives*.

<sup>5</sup> Unemployment insurance reform proposal has only outyear effects on outlays.

<sup>6</sup> Net outlays are negative because offsetting collections (e.g., insurance premiums) exceed gross outlays.

## DEPARTMENT OF STATE AND INTERNATIONAL ASSISTANCE PROGRAMS

### **The President's Proposal:**

- Targets military and economic assistance to sustain key countries supporting the United States in the war on terrorism;
- Trains foreign law enforcement and armed services to improve their counter-terrorist capabilities;
- Attacks narcotics trafficking in source countries through training, equipment and law enforcement cooperation;
- Provides employees at U.S. diplomatic missions with safe, secure, and functional facilities;
- Promotes democracy and protection of human rights throughout the world;
- Maintains strong U.S. leadership in funding the international HIV/AIDS prevention and care campaign;
- Affirms America's tradition of international humanitarian relief for refugees, displaced people and victims of disasters;
- Increases the U.S. commitment to preserving the world's tropical forests and promotes environmental sustainability;
- For the first time, links U.S. support for international financial institutions to performance;
- Ensures continued U.S. leadership in responding to threats to international peace and stability through peacekeeping activities; and
- Strengthens global broadcasting and public diplomacy to communicate American ideals and beliefs to vital audiences in countries in conflict and transition, especially in the Middle East.

The foreign affairs functions of the U.S. Government are carried out through a complex structure of agencies—with foreign policy and diplomatic relations led by the Department of State; development assistance led by the U.S. Agency for International Development (USAID); international finance led by the Department of the Treasury; international trade and investment finance by the Export-Import Bank, the Overseas Private Investment Corporation, and the Trade and Development Agency; international broadcasting by the Broadcasting Board of Governors; and other functions carried out by a number of other agencies, including the Peace Corps. The Secretary of State is responsible to the President.

For 2003, the President's Budget includes \$24.3 billion for these functions, a \$1 billion increase over the \$23.3 billion appropriated for 2002. Increased funding has been allocated based on three broad goals: 1) to support our highest priority foreign policy objectives, especially the war on terrorism; 2) to enhance security for American personnel and facilities; and 3) to advance the effort to connect resources to performance. In pursuing the first objective, the budget includes \$5.2 billion for programs that are essential in pursuing the war on terrorism.

The President's Budget also addresses the management challenges of our complex foreign affairs structure to eliminate redundancies, improve the delivery of foreign assistance, and strengthen the administration of foreign affairs. As examples, the budget launches an initiative to assure that the money taxpayers contribute to pay the high cost of stationing employees of more than 30 government agencies overseas is well managed. The budget seeks to deploy the right agencies with the most efficient number of people serving overseas advancing U.S. interests. The budget also consolidates most food aid programs under USAID, in order to ensure that U.S. food aid is delivered as efficiently and effectively as possible to feed hungry people. And, as with other agencies in the federal government, it sets forth a comprehensive agenda for strengthening management in the Department of State and USAID.

## DEPARTMENT OF STATE

### Department of State

Colin Powell, Secretary

*www.state.gov* 202-647-4000

**Number of Employees:** 28,967

**Number of Embassies and Posts Abroad:** 260

**2002 Spending:** \$15.9 billion

The State Department represents the United States in 180 foreign countries and 43 international organizations, operating a total of 260 embassies, consulates, and other posts. The past year has been a period of significant foreign policy achievement for the Bush Administration. The Administration has a broad, comprehensive foreign policy agenda for the future. In addition to the President's specific proposals, the State Department will emphasize efforts to:

- Maintain and strengthen the international coalition to fight global terrorism in all its forms;
- Maintain our core alliance relations with the North Atlantic Treaty Organization (NATO), Japan, Australia, and the Republic of Korea;
- Integrate Russia and China into cooperative frameworks to improve our relations and thereby help prevent the revival of destructive great power rivalries;
- Prevent conflict and promote reconciliation in Africa, the Balkans, the Middle East, Northeast Asia, and South Asia;
- Combat the proliferation of weapons of mass destruction;
- Enlist new support from Pakistan and other countries in the region for our efforts in Afghanistan, and assist the Pakistani government through diplomatic support and economic assistance;
- Help open markets, encourage investment, promote environmentally sound development, and expand economic opportunities around the world; and

- Promote human rights and democracy and further basic American values, including freedom of religion.

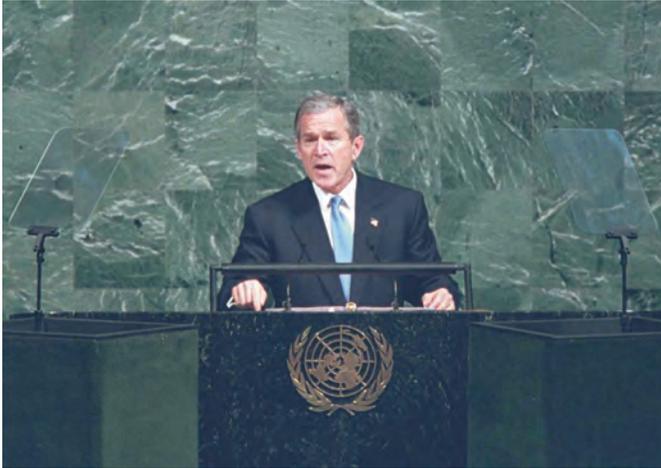
### **Overview**

The State Department is the lead agency in formulating and implementing U.S. foreign policy. Since September 11, 2001, the Department's top priority has been the war on terrorism. The Department has led the effort to build and manage the broad-based international coalition that helped defeat the Taliban in Afghanistan and is now destroying the al Qaeda terrorist network around the world. The Department also diplomatically supported the creation of a post-war government for Afghanistan in 2001 and continues to lead the international community in developing programs to provide humanitarian relief, security, and economic reconstruction assistance to help the Afghan people create a more peaceful, prosperous, and free future.

While the war on terrorism is our top foreign policy priority, the President has stressed that it cannot be our only one. We live in an age of tremendous opportunities to advance America's interests. The Department will continue to promote the Administration's broad foreign policy agenda. In addition, the Department administers some foreign aid programs, such as the counternarcotics program in Colombia. To help preserve America's essential openness, the State Department also plays a critical role in facilitating safe travel to and from the United States. Every year the State Department issues seven million passports to U.S. citizens so they can travel abroad, and it processes over 10 million visa applications submitted by those wishing to visit our country.

Some of the Department's core programs, such as issuing visas or passports, are tangible and measurable. In government-wide customer satisfaction surveys, the Department's services to passport applicants score high in all of the areas measured, with an overall score of 76 on a scale of 1–100, which is five points higher than the national American Customer Satisfaction Index score for private sector services. Other programs, however, are intrinsically more difficult to evaluate, such as those that promote democracy and human rights. For these programs, successes—such as support for the transition from authoritarian to democratic rule in Serbia and Peru—are the best, but admittedly infrequent, measures of effectiveness.

## War on Terrorism



President Bush addressing the United Nations, November 10, 2001.

border controls, including increased cooperation among border agencies to share data and guarantee the integrity and reliability of visas used to enter the United States. The United States will seek to improve the capabilities of those who agree to share our burden in the war against terrorism. This budget provides roughly \$3.5 billion for economic and security assistance, equipment, and training for states on the frontline of this war.

*We will defeat the terrorists by destroying their network, wherever it is found. We will also defeat the terrorists by building an enduring prosperity that promises more opportunity and better lives for all the world's people.*

President George W. Bush  
October 20, 2001

Funding in 2003 for the Department of State, USAID, the Department of the Treasury, and other agencies with foreign relations responsibilities concentrates on sustaining current partnerships and building new relationships as the war against terror expands around the globe. As the front shifts, the United States must be prepared to help countries strengthen their internal counter-terrorism capabilities. We must tailor programs to meet specific local needs so that terrorists can find no safe haven, no open financial or geographic border. This task is both large and long term. It will require support for a wide range of programs from blocking terrorist assets and combating money laundering to improving management of

Strengthening counter-terrorism capabilities alone will not be enough. As we learned in Afghanistan, terrorists seek refuge and build support where the rule of law and democracy have been destroyed or failed. If we are to succeed, our commitment to end terrorism must integrate counter-terrorism initiatives with programs that tackle the desperate conditions which fuel violent, transnational extremism in many countries.

In addition to offering our friends and allies help, the United States must accelerate efforts to protect Americans serving and traveling abroad. Al Qaeda bombings of American embassies in Kenya and Tanzania in 1998—which killed over 200 people and injured thousands—marked a new level of destructiveness in its terror campaign. In the World Trade Center and other attacks, Americans lost their lives alongside people from dozens of nations and ethnic and religious backgrounds.

While the State Department continues to conduct its normal diplomatic work, its personnel and those of other U.S. agencies now carry the added burden of serving in the frontline of the war on terrorism. Accordingly, the State Department is expanding its investment in security with nearly \$1.4 billion provided in this budget. Of this amount, \$837 million is for the State Department and USAID to continue to expand the worldwide security upgrade program launched in the wake of the 1998 embassy bombings. The requested funding will construct nine new embassies plus purchase armored vehicles, communications gear and other equipment. Some additional key elements from the President's anti-terrorism agenda are:



New U.S. Embassy in Nairobi, Kenya under construction after al Qaeda bombing.

#### Jordan

Strategically located along the borders of both Iraq and Syria, Jordan will be provided substantial new resources in 2003 to strengthen its security capacity and enhance its economic potential. The President is requesting \$198 million in Foreign Military Financing (FMF) and \$250 million in Economic Support Funds (ESF), increases of \$123 million and \$100 million respectively over 2002. The money will be used to improve border controls targeting the flow of weapons, including weapons of mass destruction; and to support financial training, trade and investment and to strengthen educational opportunities.

- *Afghanistan assistance:* The United States worked with our allies and the anti-Taliban Afghan groups to establish a broad-based interim government in Afghanistan. The United States remains committed to helping the people of Afghanistan rebuild and enjoy long-term stability. We will continue to provide food and development assistance. At the January pledging conference in Tokyo, the U.S. committed \$296 million to support these efforts. As Secretary of State Colin Powell stated, the United States has "an enormous obligation to not leave the Afghan people in the lurch, to not walk away as has been done in the past."

- *Anti-terrorism assistance:* \$121 million

is being provided for counterterrorism engagement programs, training, and equipment to help other countries fight global terror. As part of this commitment, the President seeks \$52 million to establish a Center for Anti-terrorism and Security Training (CAST). Once it is fully operational, the CAST will train 7,500 American and coalition partner law enforcement personnel annually in advanced anti-terrorism and security measures, thereby enhancing security of U.S. interests abroad.

## Andean Counterdrug Initiative

All of the cocaine sold on America's streets comes from South America. The Andean Counterdrug Initiative (ACI) provides assistance to Colombia, Peru, Bolivia, Ecuador, Brazil, Panama, and Venezuela for drug eradication, interdiction, economic development, and development of government institutions. The President's 2003 request for ACI is \$731 million. This assistance boosts the impact of U.S. domestic law enforcement and supports the Andean governments' efforts to destroy local coca crops and processing labs. Since 2000, U.S. assistance has provided 76 helicopters for the Colombian national police and army, giving the Colombians airlift and reach into areas previously inaccessible. In 2001, the Colombian army and police destroyed over 700 cocaine base labs, where the first stage of cocaine processing occurs, and 20 cocaine HCl labs, where the final active ingredient in cocaine is extracted. Data is not yet available to determine the program's effect on overall coca cultivation and flow of cocaine into the United States.

In addition to the State Department's law enforcement programs, USAID has launched alternative crop development and voluntary coca eradication programs with the goal of eliminating about 37,000 hectares (91,000 acres) of illegal crops. USAID also has funded its 18<sup>th</sup> *casa de justicia*. This program funds community level legal services to Colombia's poorest people. In a country with significant human rights abuses and gaps in the rule of law, legal solutions are urgent everyday requirements.

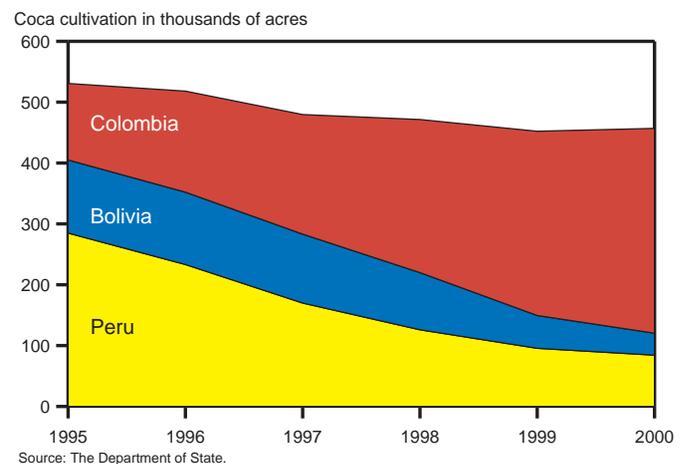
In 2003, the budget will extend the reach of counter-narcotics brigades in southern Colombia while beginning training of new units to protect the country's economic lifeline, an oil pipeline. In 2001, Colombia was the source of about two percent of U.S. oil imports, creating a mutual interest in protecting this economic asset.

The United States has devoted considerable resources to reducing coca cultivation in the Andes and had achieved modest results by the end of 2000, the last year for which data is available (see accompanying chart). The State Department is expected to define clear benchmarks for evaluating the impact of U.S. assistance and the current strategy. The effectiveness of this strategy will become clearer when the State Department releases its assessment of 2001 coca cultivation in the International Narcotics Control Strategy Report in March 2002.

## Congressional Earmarks

A large proportion of foreign assistance funding for programs implemented by the Department of State or USAID are subject to Congressional earmarks, which are either specific requirements in the appropriations bill itself or language in the report that normally accompanies an appropriations bill. The majority of these earmarks set in law or report language the amounts and priorities that the Administration requests. Only a small proportion require the Administration to fund projects that it would otherwise not have implemented. While the number of these decreased somewhat in the 2002 Foreign Operations Appropriations Act, additional reductions in 2003 will be useful.

Reduction in Andean Coca Cultivation



### Status Report on Select Programs

The Administration is reviewing programs throughout the federal government to identify strong and weak performers. The budget seeks to redirect funds from lesser performing programs on an objective to higher priority or more effective programs focused on that objective. The table below rates the performance of some important State Department programs that are either effective or targeted for rapid improvement.

Program	Assessment	Explanation
International Law Enforcement Programs	<b>Unknown</b>	Data does not exist to measure program impact. Program evaluation methodology to be developed.
Humanitarian Demining Program (HDP)	<b>Effective</b>	To help evaluate how well the program is working, the HDP identified outcome-based indicators, such as mines removed, area of land declared mine-free and the percentage reduction in reported civilian landmine casualties. This program also uses performance-based contracting.
Passport Modernization	<b>Effective</b>	State's Bureau of Consular Affairs completely revamped passport technology and systems in a short period of time. Regarding customer service for passport services, the Bureau has scored well in American Customer Satisfaction Index surveys in both 1999 and 2000.
Educational and Cultural Exchange Programs	<b>Moderately Effective</b>	Surveys of changes in attitude and professional decisions made by alumni demonstrate the program's impact. For example, nine independent external surveys of alumni indicate that the Exchange Bureau programs succeed in conveying knowledge (88 percent), building relationships with the United States (76–82 percent), altering the behavior of participants (73 percent), and benefiting the larger community or organization (76 percent). The Bureau's competition of grants, recruiting, tracking, and networking of participants and solicitation of feedback on program effectiveness are worthy of emulation. Despite its overall success, the Bureau needs more detailed performance benchmarks for measurement and stronger monitoring of expenditures by grant recipients.

Program	Assessment	Explanation
Economic Assistance to Russia	<b>Some Moderately Effective, Some Ineffective</b>	<p>Since 1992, the United States has spent over \$2.9 billion on non-security assistance to Russia. The results have been mixed. Progress in building the foundations of an efficient market economy has been slower than anticipated. For much of the 1990's government-to-government technical assistance programs had disappointing results. But when assistance was properly structured, as in the cases of tax and judicial reform as well as local government budgeting, it had important impacts. Also during the 1990's, enterprise funds and some training programs did not perform according to expectations. High school and college student exchange programs have had a positive impact, while shorter-term visitor programs have had less effect. The amount of assistance we have provided could only make a small contribution in dealing with Russia's profound economic problems. Without measurable performance indicators for many programs, judging their effectiveness has been difficult. For example, the impact of small and micro enterprise promotion programs has not yet been demonstrated. A recent interagency review recommended that U.S. assistance focus on areas such as promoting civil society and improving the capacity of small business, while eliminating funding for less effective programs. A comprehensive set of benchmarks for use in management and funding decisions is being developed for the Russia program.</p>

## Improving Performance

U.S. international affairs agencies must respond quickly to changes in the global landscape. In the past, the State Department's necessary emphasis on rapid and flexible response to world events reduced the attention the Department has given to critical management problems. Some of these problems are laid out in the President's Management Agenda, in the following sections.

To address these problems, the State Department created a high-level internal President's Management Agenda (PMA) council responsible for implementing all PMA initiatives within State. Also, OMB and the State Department are jointly leading the Administration's efforts to rightsize the U.S. government's presence abroad. It is too early to assess the impact of initiatives on improving the Department's management effectiveness, particularly with respect to information technology and staffing.

### Diplomatic Readiness

The State Department has launched a Diplomatic Readiness Initiative to foster a high performing, well trained corps of professionals. This initiative will enable the Department to have the personnel to carry out its mission and to improve professional training and career development opportunities for every Department employee. The Department's Diplomatic Readiness Task Force will continue to implement far-reaching measures to recruit well-rounded professionals possessing the skills required in their career track, thereby reducing the amount of time needed to train new hires in areas such as language, economics, and management. The Task Force will also devise additional performance measurements to evaluate the Department's progress in recruitment, placement, training, career development, and retention.

#### When Funding Arrives Before the Mission is Clear: Kosovo Women's Initiative

In 1999, the State Department provided \$10 million to the United Nations High Commissioner for Refugees (UNHCR) for the Kosovo Women's Initiative to ensure that women's needs were met as refugees returned home. UNHCR failed to effectively target and manage the funds so that resources promptly served the urgent needs of hundreds of thousands of needy families. For example, the Initiative funded sewing and aerobic classes, while family health clinics and shelters lacked resources.

### Rightsizing Overseas Presence

In the spring of 2001, OMB and the State Department attempted to identify the number of U.S. government employees serving abroad, which agencies they represented, their cost, and their purpose. OMB determined there is no comprehensive resource available that can explain how many people serve in embassies and posts overseas, let alone describe what they are doing. This lack of information results in both cost and security problems. There is no basis on which to make rational decisions. With estimates as high as 60,000 employees representing over 30 agencies, with cost estimates per American overseas ranging from \$250,000 to \$550,000 per year, there are major financial implications to maintaining a large U.S. overseas presence. In the wake of the 1998 embassy bombings in Africa and the heightened level of threat after September 11, 2001, there is an urgency to understanding appropriate staffing patterns.

As a result, the Administration has launched a rightsizing initiative with the goal of assuring that the right agencies and right number of people are serving U.S. interests overseas. As a first step, in the fall of 2001, the Administration began to collect data from all government agencies with staff overseas between the years 1995 and 2001. The initial evaluation found that most agencies report information to State with neither a thorough justification of need for each staff position, nor an evaluation of costs per position, per agency, nor where the position fits with current United States foreign policy, agency mission or skill requirements at a given post. Rarely do agencies examine whether vacant positions can be done away with. The State Department must maintain the considerable cost of the infrastructure to support this presence.

#### **Who Knows Who's Where and Why?**

Recently, the Administration tried to get a better idea of how many federal employees have been posted abroad since the mid-'90s. It is no surprise that the State Department, the Pentagon, the Peace Corps, and other agencies have staff overseas. But who knew the Interior Department had an average of 17 people posted overseas from 1995 to 2001? Or, furthermore, that NASA had staff in Paris?

In 2002, the Administration will take another step forward to address these shortcomings through an evaluation of the Bureau of European and Eurasian Affairs, which in 2001 included more than 5,000 employees, 49 embassies, 23 consulates and 5 smaller offices. This evaluation will examine the staffing and costs at each post and will help the Department to revise its Mission Performance Planning (MPP) process to apply to all posts and agencies with overseas staffing. The revised MPP will refine performance measures that can be used at all posts and applied across all regions and agencies working overseas. It will also incorporate uniform performance measures for each position and agency at each post. In addition, OMB and the Department of State are developing a surcharge proposal whereby all U.S. government agencies with staff overseas will examine staffing requirements in advance of new construction of an embassy and will pay part of the construction costs of new buildings based on space they will use in embassy buildings.

### Strengthening Management

To implement the President's Management Agenda the State Department's Director of the Office of Management Policy is coordinating an internal council to establish performance requirements and provide regular reports to the Under Secretary for Management.

Initiative	2001 Status
<p><b>Human Capital</b>—State has begun to implement a Diplomatic Readiness initiative to address certain long-standing management problems in the foreign service, such as training. It has placed renewed emphasis on recruitment and human resource management, and has made strides, but significant progress is still necessary. It also must develop a comprehensive workforce plan to match organizational needs with the knowledge, skills, and abilities of its Foreign Service, Civil Service, and Foreign Service National employees. More progress is expected from State on reducing management layers and making administrative processes more efficient.</p>	●
<p><b>Competitive Sourcing</b>—While State has identified 39 percent of its global workforce as performing activities that are commercial in nature, it has not completed public-private or direct conversion competition for 15 percent of those identified commercial activities. State is developing plans to increase the percentage of commercial positions that will be competed or directly converted to reach the President's goals.</p>	●
<p><b>Financial Management</b>—State received an unqualified opinion on its 2000 financial statements and submitted them on time. Nonetheless, State's financial systems are not compliant with federal requirements and have received only a qualified assurance statement. State plans to fix these issues through office consolidation and installing a new system that will meet the Federal Financial Management Improvement Act requirements. The new system will be completed by the end of 2003.</p>	●
<p><b>E-Government</b>—The Department has not completed an enterprise architecture to guide information technology (IT) investments. Moreover, State's central capital planning and investment control process does not routinely scrutinize all IT investments. State intends to complete its enterprise architecture and improve the scope and comprehensiveness of its capital planning process.</p>	●
<p><b>Budget/Performance Integration</b>—Except for the Embassy Security, Construction, and Maintenance account, State's budget and performance planning functions are not linked. The Bureau of Resource Management should unite these functions under the leadership of the new Chief Financial Officer. Although State has been simplifying bureau performance plans, the 2003 State Performance Plan contains inadequate performance measures and sixteen overly broad goals. State is working with OMB to improve the performance planning process and has made progress since October 2001.</p>	●

## INTERNATIONAL ASSISTANCE PROGRAMS

*We want our wealthy nation to be a decent, generous and compassionate nation. These are the goals that unite our country. These are the goals that inspire my administration. And these are the goals, when achieved, that will continue America's greatness.*

President George W. Bush  
May 31, 2001

### U.S. Agency for International Development

Andrew Natsios, Administrator

[www.usaid.gov](http://www.usaid.gov) 202-712-0000

**Number of Employees:** 7,756

**Number of Posts Abroad:** 75

**2002 Spending:** \$6.5 billion

The U.S. Agency for International Development (USAID) advances U.S. foreign policy through the implementation of development and humanitarian assistance programs to developing and transition countries throughout the world. This includes supporting the Middle East peace process and the transition of the successor states of the former Soviet Union to market economies. USAID gives special attention to post-cold war issues such as globalization and conflict prevention.

The agency uses a variety of means to implement its programs, including “technical assistance” (the transfer of knowledge and expertise), and the delivery of equipment, commodities and urgent humanitarian assistance including food aid. The majority of USAID’s programs are initiated by its overseas missions and implemented by U.S. or overseas private sector firms or non-profit non-governmental organizations (NGOs), such as the Red Cross.

This year, USAID has reoriented its program structure into four “pillars.” The first is a new business model, the Global Development Alliance, to better incorporate the knowledge and resources of the public sector, corporate America, and NGOs into USAID’s development assistance programs. In addition, three programmatic pillars incorporate the spectrum of development activities in which USAID is engaged:

- Economic growth, agriculture and trade;
- Global health, including HIV/AIDS and other infectious diseases; and
- Democracy, conflict prevention, and humanitarian assistance.

The 2003 Budget requests funding for all general USAID development assistance activities, including those aimed at health and population, in one Development Assistance program, rather than funding the health and population assistance in a separate Child Survival program. The 2003 request for this consolidated account is \$2.7 billion. Combining the programs will allow USAID greater flexibility to respond quickly and effectively to changing development and foreign policy priorities.

## Overview

The 2003 Budget enhances USAID's ability to target its assistance in ways that best meet foreign policy, development and humanitarian requirements. In 2003, USAID will:

- Increase its already significant efforts to combat the scourge of HIV/AIDS and other infectious diseases in the developing world;
- Support the economic and humanitarian assistance elements of the war on terrorism;
- Strengthen its focus on helping countries develop their agriculture sectors, including providing increased grants to non-governmental organizations to strengthen the "food security" of developing countries;
- Strengthen its focus on helping countries develop productive sectors that will increase trade and investment in order that they might benefit more fully from the global economy;
- Increase resources available to protect vulnerable tropical forests; and
- Continue to provide swift and targeted humanitarian and other assistance that saves lives in overseas disasters, or where possible prevents such disasters from occurring in the first place.

In 2002, USAID demonstrated its ability to address complex disaster situations with its quick and effective provision of food aid and other humanitarian assistance to the Afghan people, helping to avert what might otherwise have been a major humanitarian crisis. The 2003 Budget includes funding for continued recovery and initial reconstruction assistance to Afghanistan.

## Feeding Hungry People

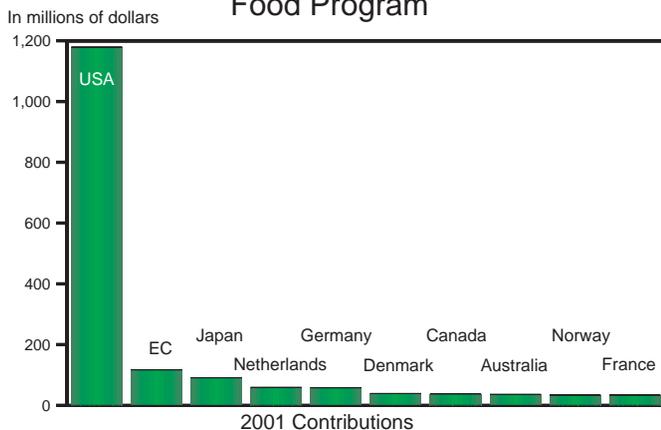
The United Nations' (UN) World Food Programme estimates more than 800 million people in the world, or about 15 percent, suffer from hunger and malnutrition. About 24,000 people die every day of hunger or related causes. The United States consistently provides about 50 percent of food aid worldwide, far more than any other donor. The Administration remains committed to maintaining U.S. leadership in supplying food aid to vulnerable people. Support for food aid is even more vital in this new era of terrorist threats as hunger leads to desperation, and potentially, violence.

Currently, two federal agencies run six programs to provide international food aid, leading to inevitable inefficiencies and overlap of functions. The Administration intends to consolidate programs to improve performance. The Department of Agriculture will continue to furnish government-to-government programs while USAID will take responsibility for all programs run through private voluntary organizations and the World Food Programme. As a result, food aid will be better integrated with the U.S. government's overall assistance programs.

### **Making Food Aid User Friendly**

Private voluntary organizations (PVOs) are eligible for grants of commodities for food security programs in the former Soviet Union under four of the six U.S. food aid programs, run by two agencies. Each program requires a separate application and is governed by different sets of rules and regulations. The Administration's proposed reform of food aid will streamline the bureaucracy so that virtually all food aid grants to PVOs are administered under one agency with a single set of rules and regulations.

### Top 10 Donors to the World Food Program



Source: The World Food Programme.

Another reform will be to eliminate the dependence of America's food aid programs on the availability of surplus U.S. commodities. Dependence on surplus commodities means little year to year predictability of supply for hungry populations overseas and the non-profit organizations that serve them. A surplus donation program was virtually non-existent in 1997; however, it rose to a level of \$1.2 billion in total program costs in 2001. In part to reduce reliance on the availability of commodity surpluses, the 2003 Budget will request a 39-percent increase, or \$335 million, in USAID-run food assistance resources that do not depend on surpluses.

The Administration intends to increase resources for direct food distribution programs to the hungry and reduce programs that sell food, to generate revenue for more general development assistance activities. This approach will assure food aid serves our intended target—the truly hungry and needy. Over time, USAID will reduce the proportion of commodities sold in non-emergency programs to a target level of 30 percent as ongoing programs are completed. The Administration also intends to make more Development Assistance program resources available to support food security related development programs of non-governmental organizations. By concentrating food aid on feeding programs, the U.S. government will continue to feed people at similar levels as in recent years.

### Fighting HIV/AIDS

As of December 2001, 40 million adults and children worldwide were estimated to be living with Human Immuno-deficiency Virus/Acquired Immune Deficiency Syndrome (HIV/AIDS), with five million new infections and three million deaths occurring during 2001. Sub-Saharan Africa, which has only 11 percent of the world's population and one percent of the world's income, has 70 percent of HIV/AIDS cases and 77 percent of AIDS deaths: these numbers are fueled by the rate of other infectious diseases, such as tuberculosis (TB), the major cause of death in those that are HIV positive. This pandemic has effected every continent and is poised to explode, especially in key countries in Asia.

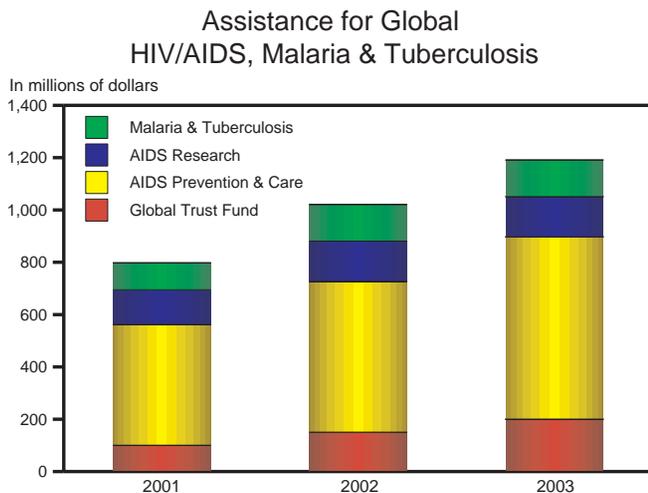
*As we enter the third decade of the AIDS pandemic, our hearts go out to those who have been afflicted with or affected by this deadly disease. We resolve to stand together as a nation and with the world to fight AIDS on all fronts. We resolve to provide the resources necessary to combat HIV/AIDS. And we resolve to ensure that those suffering with HIV/AIDS receive effective care and treatment, compassionate understanding, and encouraging hope.*

President George W. Bush  
World AIDS Day, 2001 Proclamation

AIDS is not merely a health tragedy, but it also is destroying the economic and social fabric of many countries, especially in sub-saharan Africa. AIDS related deaths decimate educators, administrators, health workers, and the general population. The President has made fighting this pandemic and

other key infectious diseases a major foreign policy objective of both U.S. bilateral and multilateral assistance programs.

The 2003 Budget proposes total bilateral and multilateral assistance for HIV/AIDS, TB, and malaria programs in developing countries of nearly \$1.2 billion, up from \$1 billion in 2002. The U.S. commitments in these two years will account for more than a third of estimated international donor funds. USAID is the single largest bilateral donor. The budget provides \$200 million, including \$100 million from the Department of Health and Human Services, to the Global Fund for HIV/AIDS, Malaria and Tuberculosis. The Administration is prepared to increase funding to the Global Fund over the 2002-2005 period if appropriate burden sharing arrangements with other donors are agreed to, and if the fund becomes an effective operation.



Recent HIV/AIDS trends in Uganda, Thailand, and a number of other countries have shown that focused resources to implement comprehensive AIDS programs can be successful in reversing the epidemic. USAID has an approved strategic and focused plan, with emphasis on 23 country/regional programs to fight against the HIV/AIDS pandemic. Four countries (Cambodia, Kenya, Uganda, and Zambia) have been identified for rapid scale-up of their HIV/AIDS program coverage. USAID, with a new Office of HIV/AIDS in recognition of this program's importance, and the Centers for Disease Control and Prevention (CDC) are expanding

these country programs in an effort to shorten the period needed to reach prevention and care goals. By the end of 2003, USAID and CDC plan to meet the following goals in the four rapid scale-up countries identified above:

- Reduce HIV prevalence in young adults by 30 percent;
- Increase care to 321,000 infected people;
- Increase orphans receiving community services to 168,000; and
- Increase HIV-infected pregnant women getting antiretrovirals to 21,000, in order to prevent mother-to-child-transmission.

### Status Report on Select Programs

The Administration is reviewing programs throughout the Federal government to identify strong and weak performers. The budget seeks to redirect funds from lesser performing programs to higher priority or more effective programs. The table below rates the performance of a few important USAID programs.

Program	Assessment	Explanation
Development Credit Authority (DCA)	<b>Ineffective</b>	DCA is a credit tool for USAID to finance development assistance in addition to or in lieu of grant funding where appropriate. Since the inception of DCA in 1999, USAID has begun 16 credit projects providing over \$35 million. However, the program has obligated only 16 percent of their 2001 credit subsidy funding, due in part to the length of time it has taken to develop effective credit budgeting and credit subsidy calculation mechanisms. Because of the need for continued improvements in these areas, as well as the \$25 million funding pipeline, additional credit subsidy funding is not requested for this program in 2003 but authority to carry forward unused 2002 funding is requested.
Expanded Response to HIV/AIDS	<b>Effective</b>	USAID programs emphasize HIV/AIDS prevention through reproductive health programs to reduce risk behaviors and efforts to prevent mother to child transmission. In the hardest hit countries, USAID programs provide care and support for those infected and to survivors, particularly orphans and other children affected by AIDS. A revised USAID strategy now directs increased funding to selected countries based on magnitude and severity of the disease, and likelihood of success. Impact indicators have been finalized and monitoring systems are being put into place in these priority countries. The 2003 Budget requests a \$115 million increase for USAID's HIV/AIDS programs.
Emergency Central American and Caribbean Hurricane Reconstruction	<b>Ineffective</b>	Hurricane Georges hit the Caribbean in September of 1998 and Hurricane Mitch ravaged Central America in late October and November of 1998. In May of 1999, Congress approved an emergency supplemental package that included \$621 million for disaster recovery for the countries affected by Hurricanes Georges and Mitch. The emergency package was intended to provide timely assistance to the hurricane victims, yet USAID had only expended 41 percent of the funds by December 31, 2000, one and a half years after funds were provided. By the end of 2001, USAID had completed approximately 93 percent of its programs. As testified to Congress by GAO, two factors contributing to the delayed response were USAID's lack of experience in rapidly designing and implementing a large-scale infrastructure program with short-term goals, and the need to coordinate with the 13 other federal agencies that helped to implement the program.

## Improving Performance

Despite USAID's best efforts, some programs fail. For example, USAID commissioned an evaluation of school feeding programs in Haiti that showed: "There is no causal connection between school feeding and improved educational performance". In addition, the report found that school feeding programs are among the least cost-effective interventions in education. As a result, in Haiti, USAID's Food for Peace Office will phase out these programs in favor of more effective programs in health, nutrition, and agriculture.

USAID has made progress in developing a systematic approach to performance measurement, although challenges remain. The agency's Annual Performance Plan has been updated to improve the ability to summarize performance. The structure includes agency level indicators of general performance, such as increased economic growth and reduced hunger and poverty; reduced rates of HIV/AIDS and other infectious diseases; increased literacy; free and fair elections; and lower mortality rates in disasters. It is often difficult to demonstrate a direct causal link between USAID programs

and these outcomes, since in most cases, USAID programs are only a small factor promoting development. Assistance from other countries, from the World Bank and other international organizations, as well as the efforts of the developing countries themselves, play important roles in achieving these outcomes. Therefore, in addition to monitoring performance related to these higher level outcomes, USAID missions also track "intermediate results" that are more directly linked to its programs. Examples vary, but can include the number of small businesses receiving USAID-supported loans and how they fared with the loans, the number of new students attending school because of USAID programs, the number of children receiving vaccinations because of USAID funding, or the number of people receiving emergency food relief. However, numerical outputs do not address or assess the quality of the program or how well it functions. USAID needs to improve its ability to use this information for decision-making. Although USAID has used anecdotal program results as a factor in allocating resources, the agency has yet to develop a systematic budget process that fully and transparently bases decisions on performance considerations. USAID will continue working to develop measures of performance to determine the extent to which programs succeed in advancing U.S. foreign policy.

## Strengthening Management

USAID's ability to perform optimally has been seriously compromised for years by ineffective and outdated management systems and structural shortcomings. Last year, it began a major effort to strengthen its most critical systems both in Washington and overseas and to restructure its operations. While progress has been made, particularly in financial management and workforce planning, much remains to be done.

Initiative	2001 Status
<p><b>Human Capital</b>—USAID is undertaking a comprehensive review of its workforce and has submitted a workforce plan. USAID has committed to reducing the ratio of supervisors to employees from 1:4 to 1:5 by the beginning of 2003 and limiting the number of management levels for each bureau. Over the longer term, the agency must confront recruitment issues since significant attrition due to retirement is expected. USAID already has a detailed recruitment plan for the Foreign Service and is working to complete a similar plan for the Civil Service.</p>	●
<p><b>Competitive Sourcing</b>—No progress has been made on this initiative. USAID has not completed public-private or direct conversion competition on 15 percent of its functions identified as commercial, and it has not submitted an approved competition plan. USAID intends to submit to OMB a competition plan detailing how it will meet the administration's two-year, 15 percent goal.</p>	●
<p><b>Financial Management</b>—Although a core accounting system is in place in Washington, it has not yet been deployed overseas. Therefore, almost 50 percent of USAID-managed funds are not within the new system. Until its field systems are modernized, USAID will be unable to gain the benefits of modern business practices in accounting, finance, procurement, and e-government. Further, while the first full audit of USAID's financial statement is being conducted for 2001, it is not clear that the Inspector General will be able to render an opinion. USAID will submit and implement a targeted remediation plan for its financial systems. The agency study of business practices will include strategies to accelerate deployment of the core accounting system.</p>	●
<p><b>E-Government</b>—The business cases for USAID accounting and procurement modernization, as well as its operations and infrastructure upgrades, do not look forward and define how the agency can deploy its new systems worldwide. USAID is undertaking a study to address how it can make more effective use of capital planning, enterprise architecture, and modern business concepts. The 2003 Budget includes a capital investment account to segregate and better manage information technology funding.</p>	●
<p><b>Budget/Performance Integration</b>—Although USAID's reorganization has placed budget responsibility with the planning bureau, it is not yet clear how the agency will further integrate performance with budget decision-making. While the Agency can point to anecdotal examples of reallocating resources to higher-performing activities within countries or countries within regions, a more comprehensive and consistent process to tie agency-level planning and budgeting to performance needs to be developed. USAID will submit its initial performance plan to OMB; coordinate with the State Department in integrating performance factors into budget formulation; and continue to refine performance indicators to improve usefulness to decision-makers.</p>	●

## DEPARTMENT OF THE TREASURY

### Department of the Treasury

Paul O'Neill, Secretary

*www.ustreas.gov*      202-622-1260

**Multilateral Development Banks:** The World Bank Group, Inter-American Development Bank Group, Asian Development Bank Group, African Development Bank Group, European Bank for Reconstruction and Development, North American Development Bank, Global Environment Facility, and International Fund for Agricultural Development.

**Other International Financial Institutions/Mechanism:** International Monetary Fund and Exchange Stabilization Fund

**Bilateral Programs:** International Debt Restructuring and Treasury Technical Assistance

**2002 Spending:** \$1.7 billion

The Treasury Department is responsible for a number of international programs, including U.S. relations with the International Monetary Fund (IMF) and administration of the Exchange Stabilization Fund. Treasury also is responsible for U.S. relations with the World Bank and other Multilateral Development Banks (MDBs), and administers U.S. contributions to these institutions. Treasury negotiates and manages U.S. participation in multilateral debt reduction initiatives, such as the Heavily Indebted Poor Country (HIPC) initiative, and handles funds for the U.S. portion of such initiatives. Finally, Treasury operates a small technical assistance program to help our partners in the war against terrorism fight money laundering and other financial crimes, as well as help finance ministries in developing countries implement fiscal and financial policy reforms.

### Improving Multilateral Assistance to the Poorest Countries

Since its establishment in 1944, the World Bank's goal of post-war reconstruction in Europe has broadened significantly. The World Bank and the regional development banks now seek to encourage economic growth and poverty reduction in developing and transition countries, while the specialized financial institutions like the Global Environment Facility (GEF) maintain narrower, specific mandates.

Over the past 25 years, the United States has consistently been the largest donor to the multilateral development banks. While our contributions leverage other donor commitments, it is important to insist that these institutions significantly improve conditions for their principal constituency, the world's poor. As recent World Bank data shows, more people today live in poverty on less than \$2 a day than did so a decade ago.

#### Clearing U.S. Arrears

Outstanding U.S. arrears to all MDBs now equal \$533 million, \$34 million greater than last year's total of \$499 million. The President's Budget requests \$178 million to help meet U.S. international commitments under a plan to clear all arrears, on a pro-rata basis by institution, over the next three years.

The President's concerns about these institutions' performance have caused a significant change in the Administration's policies. As proposed by the President, the United States is working to negotiate a significant increase in the level of assistance provided to the poorest and least creditworthy countries as grants rather than loans. The United States and other donors are currently discussing replenishments for the International Development Association (IDA), African Development Fund, and GEF. We are pursuing measures to increase the focus of these replenishments on countries with sound policy environments and demonstrated performance, and on operations that raise productivity. At the same time, the United States is emphasizing the need for institutions to develop reliable performance and output indicators.

Recognizing the importance of demonstrating results, the United States is proposing a performance-based financing framework for its contribution to the IDA replenishment. It provides a base-level annual contribution of \$850 million for each of the three years of the replenishment. Additional contributions of \$100 million in the second year and \$200 million in the third year will be made available if IDA meets specific measurable results, for example in the areas of education, health, environment and trade capacity building. The Secretary of the Treasury will use measures of performance to determine the extent to which U.S. participation in multilateral financial institutions is effective.

### **Conserving the World's Remaining Tropical Forests**

Between 1980 and 1995, more than 540 million acres of tropical forests were cut down, a loss with major implications for the world. Tropical forests provide a wide range of benefits, including harboring a major share of the Earth's biological resources, protecting soil and water, replenishing the Earth's atmosphere with fresh air, and providing timber, medicines, food, and jobs.

More than half of the world's plant and animal species lives in tropical forests, making them home to the world's greatest amount of biological diversity.

For these reasons, the Administration is committed to preserving the world's remaining tropical forests. Under the proposal contained in this budget, the United States will be able to better use its resources to achieve this important environmental goal. The Administration's new forestry conservation proposal will improve forestry conservation by providing \$50 million to USAID. Up to \$40 million of this amount may be available for the budget cost of debt reduction that is used for forest conservation under the Tropical Forest Conservation Act (TFCA). The remainder will be used for grants to non-governmental organizations engaged in forestry conservation in order to accelerate support and improve effective implementation of TFCA agreements. The Administration will develop specific criteria to determine which mechanism is most appropriate for each case.

Under TFCA, to date, debt reduction agreements have been concluded with four countries: Bangladesh, Belize, El Salvador, and Thailand. In all, these countries will save over \$60 million in hard currency payments as a result of these agreements to swap external debt for forest conservation.

## INTERNATIONAL AFFAIRS AGENCIES

### Export Import Bank

#### Export Import Bank

John E. Robson, Chairman

[www.exim.gov](http://www.exim.gov) 800-565-EXIM

**Number of Employees:** 420

#### 2002 Spending:

Program: -\$263 million

Administrative: \$62 million

**Lending Activity:** \$10.4 billion

The 2003 Budget will support an increase in lending levels from an estimated \$10.4 billion in 2002 to \$11.5 billion in 2003 using an appropriation of \$541.4 million in program resources.

The increase in lending levels is achieved with the 2003 Budget request levels because of the use of an entirely new credit risk methodology for all international lending programs that integrate market data with long term market-wide default experience.

The Export-Import Bank is also continuing work on ways to focus its lending on cases where the private sector does not provide financing. Such efforts are particularly important to ensure the Bank does not compete against the private sector, which is becoming increasingly aggressive in providing private export financing. For example, Export-Import Bank will consider higher fees where it does not affect the Bank's competitiveness with other official lenders, as well as applying more stringent tests for whether Bank support is necessary to finance specific transactions.

#### New Method for International Credit Risk

Until this budget, the U.S. Government (USG) used the premium charged by private sector lenders to other governments as a proxy for the default costs of USG loans to these countries. While this was the best available method, it captured not just default risk, but also profits, opportunity costs, tax effects and other factors not relevant to the budget cost of USG credits. The new method isolates just the default risk portion of the private market premiums. In short, the risk of new USG international credits has not decreased, but budget costs are now based only on this default risk, not on other extraneous factors.

## Overseas Private Investment Corporation

### Overseas Private Investment Corporation

Peter S. Watson, President

*www.opic.gov* 202-336-8400

**Number of Employees:** 202

**2002 Spending:**

Program: -\$262 million

Administrative: \$39 million

**Lending Activity:** \$739 million

**Insurance Activity:** \$2.2 billion

The Overseas Private Investment Corporation (OPIC) offers direct loans, investment guaranties, and political risk insurance to private U.S. companies investing in the developing world. In recent years, OPIC lost sight of its development mission and concentrated too heavily on serving its corporate borrowers. To refocus on its development mandate, OPIC has established a new Office of Investment Policy to evaluate the developmental impact of its activities on the host country. OPIC will continue to measure job creation in host countries and will establish additional indicators of a project's development impact. In addition, OPIC will focus less on large corporations

with alternative means of financing and increase the number of projects sponsored by American small business from the current level of 51 percent to 60 percent in 2003. OPIC also will implement new procedures to direct its activities toward filling important gaps in the private market and not undercut private finance or insurance.

## U.S. Trade and Development Agency

### U.S. Trade and Development Agency

Thelma J. Askey, Director

*www.tda.gov* 703-875-4357

**Number of Employees:** 48

**2002 Spending:** \$55 million

The U.S. Trade and Development Agency (TDA) facilitates American job creation by connecting U.S. companies with overseas business opportunities. Through the funding of feasibility studies, orientation visits, specialized training grants, business workshops, and technical assistance, TDA enables American businesses to compete for infrastructure and industrial development projects in middle-income and developing

countries. The President's Budget provides \$45 million for TDA to maintain its current regional portfolio while at the same time taking advantage of new opportunities in areas such as Africa, China, and Russia.

## Peace Corps

### Peace Corps

Lloyd O. Pierson, Acting Director

[www.peacecorps.gov](http://www.peacecorps.gov) 800-424-8580

**Number of Employees:** 1,170

**Number of Posts Abroad:** 69

**2002 Spending:** \$286 million

In response to a greater interest in volunteerism and to increase America's contribution to the people of the world, the President's Budget requests an increase in 2003 for the Peace Corps. The added funds will open new programs and be targeted to assist host countries and local communities through business development and other economic growth activities.

## International Broadcasting

### Broadcasting Board of Governors

Marc Nathanson, Chairman

[www.ibb.gov/bbg](http://www.ibb.gov/bbg) 202-619-2538

**Number of Employees:** 2,505

**Comprised of four broadcasting entities:**  
Voice of America, Radio Free Europe/Radio Liberty, Radio Free Asia, and Radio/TV Marti.

**2002 Spending:** \$560 million

The Broadcasting Board of Governors (BBG) directs all U.S.-funded, non-military international broadcasting (Voice of America, Radio Free Europe/Radio Liberty, Radio Free Asia, Radio/TV Marti). These broadcasting services provide objective news and information, and explain and provide context for America's policies to foreign publics around the world in their own languages. Through its annual comprehensive review of the effectiveness of its broadcast services, the BBG will continue to reexamine resource allocations, placing special emphasis on prioritizing its language services to reflect the

U.S. Government's public diplomacy goals. The Administration has chosen the BBG's Middle East Broadcasting Initiative, launched in 2002, as a pilot project for performance budgeting. Specifically, the BBG will measure how the 2003 funding provided for this initiative affects listenership rates in the Middle East. The outcome goal for this pilot project is a rise in listenership rates from an anticipated rate of 3.9 million persons in 2002 to 6.7 million in 2003.

## Department of State and International Assistance Programs

(In millions of dollars)

	2001	Estimate	
	Actual	2002	2003
<b>Spending:</b>			
Discretionary Budget Authority:			
Department of State:			
Andean Counterdrug Initiative .....	—	625	731
Diplomatic and Consular Programs .....	3,220	3,713	4,019
Embassy Security, Construction, and Maintenance .....	1,081	1,277	1,308
Other .....	3,505	3,265	3,176
Subtotal, Department of State .....	7,806	8,880	9,234
International Assistance Programs:			
Foreign Military Financing .....	3,568	3,650	4,107
Non-proliferation, Anti-terrorism, Demining, and Related.....	311	344	372
Economic Support Fund.....	2,300	2,214	2,290
<i>USDA International Food Aid (non-add)</i> .....	(835)	(850)	(1,185)
Development Assistance <sup>1</sup> .....	2,124	2,474	2,740
Multilateral Development Banks .....	1,145	1,174	1,437
Peace Corps .....	267	278	320
Other .....	2,885	3,005	2,620
Subtotal, International Assistance Programs .....	12,600	13,139	13,886
Other International Affairs Activities:			
Export-Import Bank .....	907	767	600
All Other .....	526	557	590
Subtotal, Other International Affairs Activities .....	1,433	1,324	1,190
Subtotal, International Affairs Activities adjusted <sup>2</sup> .....	21,839	23,345	24,310
Remove contingent adjustments.....	-110	-118	-125
Total, Discretionary budget authority .....	21,729	23,227	24,185
Emergency Response Fund, Budgetary Resources:			
Department of State .....	49	380	—
International Assistance Programs.....	5	985	—
Other International Affairs Activities .....	—	47	—
Total, Emergency Response Fund, Budgetary resources .....	54	1,412	—
Mandatory Outlays:			
Department of State .....	392	468	461
International Assistance Programs.....	-1,688	-1,007	-989
Other International Affairs Activities .....	-2,461	-782	-332
Total, Mandatory outlays.....	-3,757	-1,321	-860
<b>Credit activity:</b>			
Direct Loan Disbursements:			
Department of State .....	1	1	1
International Assistance Programs.....	665	389	101
Export-Import Bank.....	1,788	1,997	570
Total, Direct loan disbursements .....	2,454	2,387	672

### Department of State and International Assistance Programs—Continued

(In millions of dollars)

	2001	Estimate	
	Actual	2002	2003
Guaranteed Loans:			
International Assistance Programs.....	508	707	706
Export-Import Bank.....	7,504	6,965	8,384
Total, Guaranteed loan disbursements.....	8,012	7,672	9,090

<sup>1</sup> Includes Child Survival and Disease Programs in 2001 and 2002.

<sup>2</sup> Adjusted to include the full share of accruing employee pensions and annuitants health benefits. For more information, see Chapter 14, "Preview Report," in *Analytical Perspectives*.

## DEPARTMENT OF STATE AND INTERNATIONAL ASSISTANCE PROGRAMS

### The President's Proposal:

- Targets security and economic assistance to sustain key countries supporting the United States in the war on terrorism;
- Reinforces the U.S. commitment to fighting AIDS and alleviating humanitarian hardships;
- Launches the Millennium Challenge Account, a new partnership to support countries that rule justly, invest in their people, and encourage economic freedom;
- Builds a world-class diplomatic corps, focusing on the people, places, and tools needed to promote the Administration's foreign policies worldwide; and
- Funds embassy and consulate security to protect American officials assigned abroad to represent their country.

### The Major Challenges:

- Strengthening the global coalition against terrorism;
- Increasing effectiveness and accountability of foreign assistance; and
- Making substantial progress on the management agenda, including fixing financial management systems, effectively managing a worldwide workforce, and integrating performance information into the budget.

#### Department of State

Colin Powell, Secretary

[www.state.gov](http://www.state.gov) 202-647-4000

**Number of Foreign Service Officers:** 11,062

**Number of Civil Service Employees:** 7,656

**Number of Foreign Service Nationals:** 9,526

**2003 Spending:** \$11.0 billion

**Major Assets:** Operates a total of 261 embassies, consulates, and posts in 180 countries.

The Department of State advances American foreign policy in diplomatic relations with the world. The State Department represents the United States in 180 foreign countries and 43 international organizations, operating a total of 261 embassies, consulates and other posts. The Department supports more than 90,000 Foreign Service and civil service employees, dependents, and local hires overseas.

The Department is America's chief communicator on every foreign policy issue from strengthening alliances like the North Atlantic Treaty Organization (NATO) and preventing conflict in South Asia, to combating terrorism and the proliferation of weapons of mass destruction. It also addresses refugee crises and promotes environmentally sound growth.

For many Americans, the State Department is both a gateway to the world and a safe haven abroad. The Department's core programs include issuing passports and providing essential services to American citizens abroad. The Department of State stands on the front line in America's border security efforts, scrutinizing prospective visitors to the country so that those who would pose a threat are denied access while maintaining our openness to legitimate travel and commerce through prudent management of the visa process. Every year, the State Department issues more than seven million passports to U.S. citizens so they can travel abroad, and it processes an average of six million visa applications for visitors.

#### **U.S. Agency for International Development**

Andrew Natsios, Administrator

[www.usaid.gov](http://www.usaid.gov) 202-712-0000

**Number of Foreign Service Officers:** 1,082

**Number of Civil Service Employees:** 1,079

**Number of Foreign Service Nationals:** 4,749

**2003 Spending:** \$3.6 billion

**Major Assets:** Owns offices in eight of 75 countries where USAID operates.

The U.S. Agency for International Development (USAID) advances U.S. foreign policy through development and humanitarian assistance programs. USAID works abroad in 75 countries, implementing programs that promote economic growth, education, sound environmental policies, agriculture, trade, and global health. Its work also includes treating and preventing Human Immuno-deficiency Virus/Acquired Immune Deficiency Syndrome (HIV/AIDS), promoting democracy, providing conflict management and humanitarian assistance. Many of

USAID's programs are designed in the field and carried out by private-sector firms or non-profit, non-governmental organizations.

The U.S. foreign affairs team also involves other U.S. agencies. The Department of the Treasury does technical training, formulates international financial policy, and makes U.S. contributions to the Multilateral Development Banks (MDBs). Other agencies involved directly in U.S. foreign affairs include the Broadcasting Board of Governors, which expands the availability of information through radio and television broadcasts, the Peace Corps, the Export-Import Bank, the Overseas Private Investment Corporation, the Trade and Development Agency, the Inter-American and African Development Foundations, the U.S. Institute of Peace and the office of the U.S. Trade Representative.

## **Overview**

The 2004 Budget proposes several initiatives to further America's leadership in the world. Funding requested for 2004 for the Department of State, USAID, and other international agencies is \$27.4 billion, an 11.6-percent increase over the \$24.5 billion requested for 2003.

The number one priority in the proposed budget is the advancement of the global fight against terrorism. The budget furthers this goal by providing economic, military, and democracy assistance to key foreign partners and allies, including \$2.3 billion to vulnerable states on the front lines of the war against terrorism like Afghanistan and Turkey.

The budget also promotes international peace and prosperity by launching the most innovative approach to U.S. foreign assistance in more than 40 years. The new Millennium Challenge Account

(MCA), a government corporation funded at \$1.3 billion, will redefine aid by focusing new assistance on countries where governments rule justly, invest in their people, and encourage economic freedom. Further, the budget offers hope and a helping hand to countries facing health catastrophes and humanitarian disasters. It provides \$2 billion to combat the global HIV/AIDS epidemic and more than \$1 billion to meet the needs of refugees and internally displaced peoples. Finally, the 2004 Budget will give American diplomats the tools they need to perform these complex tasks, by ensuring adequate training, institutional support, and information technology for U.S. officials overseas.

This chapter describes the recent accomplishments, initiatives, and challenges that the Department of State and international assistance agencies face, while linking the resources proposed for 2004 policy reforms to anticipated performance. It documents the ways that business as usual is being changed to achieve better results.

## Prosecuting the War on Terrorism

The United States will provide extensive assistance to states on the front lines of the anti-terror struggle, both in terms of financial assistance and training and support for allied governments. Working one-on-one with countries and through multilateral organizations, we have frozen more than \$110 million in terrorist assets, launched new initiatives to secure global networks of commerce and communication, and significantly increased the cooperation of our law enforcement and intelligence communities with other countries. Afghanistan is no longer a haven for al Qaeda. The United States and allied nations are working with the Afghan Authority to build roads, schools, deliver health services, and rebuild the economy.



A new kindergarten in Afghanistan supported by USAID.

## Assistance to Frontline States—Standing with our Friends

The 2004 Budget for International Affairs provides approximately \$2.3 billion for assistance to countries around the world that have joined us in the war on terrorism. These include Afghanistan, Colombia, Jordan, Pakistan, and Turkey. This funding will provide economic and military support to enable these countries to strengthen their economies, internal counter-terrorism capabilities, and border controls.

The President's Budget proposes \$800 million in the Economic Support Fund (ESF) for the frontline states, including \$250 million for Jordan, \$200 million each for Pakistan and Turkey and \$150 million for Afghanistan. In Afghanistan, \$70 million will be used to fulfill our commitment to rebuild the Kabul-Kandahar-Herat Highway, as well as provide for other infrastructure such as secondary roads, water and sewer projects, and electrification. The remaining amount will provide budget support and further democracy and governance programs. In Pakistan, ESF will be used to provide assistance to the government of Pakistan to fund social service projects.

The Foreign Military Financing program will provide equipment, training, and defense services to countries for programs that counter terrorism and develop institutions to prevent the emergence of terrorism. For example, the President is requesting \$150 million in Foreign Military Financing as well as \$20 million in the Peacekeeping Operations account as part of the ongoing efforts to train the Afghan National Army, to maintain internal security and prevent the country from again becoming a terrorist haven. This aid will be supplemented by donations of equipment and training from other countries allied in the effort to reconstruct a viable Afghan state.

The State Department's Anti-Terrorism Assistance (ATA) program will continue to provide frontline states a full complement of courses, such as training on how to conduct a post-terrorist attack investigation or how to respond to a weapons of mass destruction attack. The budget will also fund additional equipment grants to sustain the skills and capabilities acquired in the ATA courses. It will support in-country training programs in Afghanistan, Pakistan, and Indonesia as well. The 2004 Budget increases the ATA program to \$106 million, \$42 million over the 2003 requested level.

### Central Asia and the New Independent States

In 2004, over \$171 million will go to assistance programs in the Central Asian states. The 2004 Budget continues to focus funds on programs in Uzbekistan, Kyrgyzstan, and Tajikistan in recognition that Central Asia is of strategic importance in fighting terrorism. Assistance to these countries has almost doubled from levels preceding September 11, 2001, and is 55 percent above levels proposed for 2003. These funds will support civil society development, small business promotion, conflict reduction, and economic reform efforts in the region. These efforts are designed to promote economic development and strengthen the rule of law in order to reduce the appeal of extremist movements and stem the flow of illegal drugs that finance terrorist activities.

Funding levels and country distributions reflect a shifting of priorities. For example, after more than 10 years of high levels of assistance, it is time to let some countries in this region graduate from economic assistance, as we have done with many in Eastern Europe. The U.S. economic assistance to Russia and Ukraine will begin phasing down in 2004, with a decrease of 32 percent from 2003. America will, however, continue providing assistance to democracy building and civil society programs.

### Stemming Narco-terrorism

The President's request for the Andean Counterdrug Initiative includes \$463 million for Colombia. This funding will support the new Colombian government's unified campaign against terrorists and the drug trade that fuels their activities. The aim is to put up a backstop for democracy, extend security, and restore economic prosperity to Colombia while preventing the narco-terrorists from spreading instability to the broader Andean region. Critical components of this effort include resumption of the Airbridge Denial program to stop internal and cross-border aerial trafficking in drugs, stepped up eradication of crops coupled with alternative development efforts, and technical assistance for strengthening Colombia's police and judicial institutions.



USAID supports many reconstruction efforts in Afghanistan, like this major road from Kabul to Kandahar.

## Countering the Threat from Weapons of Mass Destruction

On December 11, 2002, President Bush announced a new National Strategy to Combat Weapons of Mass Destruction (WMD). The strategy is based on three pillars:

- Pursue robust counterproliferation policies and capabilities to deter and defend against the use of these weapons;
- Strengthen nonproliferation measures to prevent states and terrorists from acquiring weapons of mass destruction; and
- Increase our preparations to respond effectively to any use of these weapons against us or our friends and allies.

The 2004 Budget proposes \$35 million for the Nonproliferation and Disarmament Fund (NDF), more than double the 2003 request. It also increases funding for overseas Export Controls and Border Security (EXBS) to \$40 million and supports strengthening the nuclear safeguard and security capabilities of the International Atomic Energy Agency.

The NDF and EXBS programs help prevent weapons of mass destruction from falling into the hands of terrorist groups or states by helping foreign governments establish and strengthen export and border control systems to prevent the proliferation of weapons of mass destruction, materials, technology, and expertise.

## Explaining America Through a New Middle East TV Network

Public diplomacy and international broadcasting activities open communication channels and understanding worldwide. The President's Budget builds on the successful launch of the Middle East Radio Network in 2002 and provides \$30 million in 2004 to use television to engage people throughout the region. The Middle East Television Network, an American-style Arabic language news and information satellite network, will broadcast directly into the homes of up to 50 million viewers, providing them with a means to better understand America, its policies, and people.

## War Against Poverty and Despair: American Leadership in Fighting AIDS and Alleviating Humanitarian Hardships

*The HIV/AIDS pandemic has taken the lives of more than 20 million people and is projected to take millions more. On World AIDS Day, countries around the world are united to support the individuals, families, and communities affected by this disease, and to renew our commitment to preventing the spread of HIV/AIDS, developing and delivering more effective treatments, and finding a cure.*

President George W. Bush  
November 29, 2002

This budget reaffirms the United States' role as the leading donor nation confronting the greatest challenges faced by many developing countries today. The 2004 Budget proposes a number of foreign assistance initiatives managed by USAID and other federal agencies that provide crucial resources that prevent and ameliorate human suffering worldwide.

## Fighting the Global AIDS Pandemic

The 2004 Budget continues the Administration's commitment to combat the spread of HIV/AIDS and to help bring care and treatment to infected people overseas. The HIV/AIDS pandemic has killed 23 million of the 63 million people it has infected to date, and left 14 million orphans worldwide. President Bush has made fighting this pandemic a priority of U.S. foreign policy. The United States was instrumental in launching the Global Fund to Fight HIV/AIDS, Malaria and Tuberculosis in 2001. The United States was the first country to make a contribution to the fund and leads the world in having committed \$500 million to it—23 percent of total pledges to date. In 2002, President Bush launched a \$500 million initiative to prevent mother-to-child-transmission of HIV/AIDS. This initiative is targeted at the 14 countries in Africa and the Caribbean hardest hit by the HIV/AIDS pandemic.

The President believes the global community can—and must—do more to halt the advance of the pandemic, and that the United States should lead by example. Thus, the President's 2004 Budget request signals a further, massive increase in resources to combat the HIV/AIDS pandemic. Specifically, the President is committing to provide a total of \$15 billion over the next five years to turn the tide in the war on HIV/AIDS. These funds will be targeted on the hardest hit countries in Africa and the Caribbean with the objective of achieving dramatic on-the-ground results. Implementation of this initiative will be based on the "network model" being successfully employed in a number of countries. This model is based on a layered network of central medical centers that support satellite centers and mobile units with descending levels of medical expertise as treatment moves from urban to rural communities. In an effort to capitalize on recent advances in therapy, this initiative will provide advanced antiretroviral treatment on a large scale, together with prevention and care.

The \$15 billion in funding for this initiative assumes baseline spending of \$5.2 billion. It also includes new funding for bilateral assistance totaling \$9 billion, and an additional \$1 billion for the Global Fund, conditioned on the Fund showing results. This new, dramatic commitment is reflected in the 2004 Budget, which includes \$450 million for the initiative. With this new commitment, U.S. international assistance to combat HIV/AIDS will have increased by 198 percent since President Bush took office.

In order to ensure accountability for results, the President proposes to establish at the Department of State a new Special Coordinator for International HIV/AIDS Assistance. The Special Coordinator will have the rank of ambassador and will be responsible for coordinating all international HIV/AIDS programs and the efforts of the agencies that implement them.

## A New Approach to Hunger, Famine, and Other Emergencies

**Food Aid.** Historically the United States has been the largest donor of assistance for victims of protracted and emergency food crises. Droughts, earthquakes, and other natural disasters sometimes lay otherwise self-sufficient nations low. Early in the Administration, the President determined that preserving this U.S. leadership role was a high priority. He would not idly stand by while these crises occurred. However, improvements were needed in the management of our programs. In particular, since 1999, an increasing percentage of food assistance was dependent upon the unpredictable supply of surplus commodities. A Presidential Management Initiative directed reforms that would increase the amount of food going to hungry populations, and rationalize U.S. Department of Agriculture (USDA) and USAID program management.

In 2003, discretionary funding increased from \$864 million to \$1.185 billion. That level will be enhanced significantly in 2004 with two new initiatives: a Famine Fund and an emerging crises fund to address complex emergencies.

***Famine Fund.*** The 2004 Budget includes a new \$200 million fund with flexible authorities to provide emergency food, grants or support to meet dire needs on a case-by-case basis. This commitment reflects more than a 15-percent increase in U.S. food assistance, one of the largest increases in programs in the budget.

***Emerging Crises Fund.*** The budget also requests \$100 million for a new Presidential-level account and mechanism that will allow the Administration to respond swiftly and effectively to prevent or resolve unforeseen complex foreign crises. This account will provide a mechanism for the President to support actions to advance American interests, including to prevent or respond to foreign territorial disputes, armed ethnic and civil conflicts that pose threats to regional and international peace and acts of ethnic cleansing, mass killing and genocide.

## Partnerships with Other Countries

The United States wants to help countries who help themselves. In March 2002, President Bush called for a new compact for development, emphasizing that increased assistance from donor countries be linked to sound policies in recipient countries.

### Millennium Challenge Account

The 2004 Budget request of \$1.3 billion for a new Millennium Challenge Account (MCA) fulfills the President's March 2002 pledge to create a new bilateral assistance program along markedly different lines. The MCA breaks with the outdated models of economic development assistance. As the President stated in his speech before the Inter-American Development Bank, "When nations refuse to enact sound policies, progress against poverty is nearly impossible. In these situations, more aid money can actually be counterproductive, because it subsidizes bad policies, delays reform, and crowds out private investment." This new compact for global development ties increased assistance to performance.

This budget marks a first step towards the President's commitment of \$5 billion in annual funding for the MCA by 2006, a 50-percent increase in core development assistance. The MCA supplements U.S. commitments to humanitarian assistance and existing USAID development programs.

MCA funds will go only to selected developing countries that demonstrate a commitment to sound policies—based on transparent, concrete, and objective criteria. The selection process will use 16 indicators to assess national performance relative to governing justly, investing in people, and encouraging economic freedom.

MCA resources will be used in partnership with recipient countries, with a limited number of measurable goals, activities, and benchmarks and thorough financial accountability standards.



President Bush announces the Millennium Challenge Account at the Inter-American Development Bank in Washington, D.C. on March 14, 2002.

The MCA will be run by a new government corporation designed to ensure accountability for measurable results. The Secretary of State will preside over a board of directors supervising the corporation. MCA personnel will be drawn from a variety of government agencies and non-governmental organizations and serve limited-term appointments.

In 2004, the MCA will consider countries both eligible to borrow from the International Development Association (IDA) and which have per capita incomes below \$1,435 (the historical IDA cutoff for aid). In 2005, all countries with per capita incomes below \$1,435 will be considered. In 2006, all countries with per capita incomes up to \$2,975 (the current World Bank cutoff for lower middle income countries) will be eligible.

### **Strengthening American Assistance**

While the MCA offers a new approach to a selected group of partners, the President is committed to preserving existing commitments to economic, development and humanitarian assistance. However, even within these accounts, business as usual is not acceptable. Improvements in management and implementation of aid programs must be accelerated to reach all communities to help them succeed.

As a first step, the Administration will focus on developing plans for a small group of countries ready to graduate from U.S. assistance. With the view that these graduations will free resources for countries with sustained greater needs, the Administration will work in partnership to develop plans to generate growth, jobs and access to private capital.

Clearly not all countries are ready to graduate from assistance programs. Many, if not most, of the current recipients of aid will continue to receive some form of U.S. support. However, specific and sustained levels of funding to support a results-driven plan for action offers a concrete promise of stability and prosperity for many transitioning countries.

In 2002–2003, the U.S. Embassy in Sofia, Bulgaria, has developed such a plan. Consistent with its NATO aspirations and ambition to integrate into the European economy, a three-year U.S. pledge for \$28 million annually will fund a transition plan to secure stronger good governance and broader economic opportunity.

The U.S. assistance to Bulgaria has been substantially modified with a much stronger focus on anti-crime and anti-corruption assistance to the police, prosecutors and court systems that are demonstrably committed to democratic standards of rule of law. With a successful model in place, these programs will be used more broadly over the next three years, until Bulgaria graduates from all such assistance in 2007.

The United States reaches out to serve and support those in real need. Especially those who live in poverty should have hope that our aid programs will contribute to building better, safer communities with expanded opportunities to learn and work. Non-Government Organizations (NGOs), the Congress and the American public have long been critical of U.S. assistance as slow to arrive, indifferent to local concerns and unlikely to show signs of success in any meaningful time period. For a nation that continues to rank as the single largest donor to countries in need, a new agenda with clear goals is essential. The graduation program represents a first step to change the way we work.

### **African Education Initiative**

The Administration's financial commitment to the African Education Initiative doubles this year. Begun in 2001, the initiative focuses on increasing access to quality education in Africa. Over its five-year life the African Education Initiative will achieve: 160,000 new teachers trained; 4.5 million textbooks distributed; an increase in the number of girls attending school through more than a quarter million scholarships and mentoring; and an increase in African Education Ministries'

capacity to address the impact of HIV/AIDS. The 2004 Budget requests \$142 million for African education assistance.

### **Pushing for Results from Multilateral Development Banks**

The MDBs provide over \$40 billion in financing annually to foster economic growth and poverty reduction around the world. The U.S. share of MDB funding is over 22 percent. The Administration is promoting reform in all the MDBs to ensure that their assistance increases the productivity of people and countries receiving aid. The 2004 Budget provides \$1.55 billion for the MDBs, which includes \$1.36 billion for scheduled payments to the MDBs and \$195.5 million to clear existing overdue debt. The budget provides \$950 million for IDA, \$100 million of which is contingent on IDA establishing a results measurement system. By spring 2003, IDA is to have completed an outline of approach to results measurement, presented baseline data and identified outcome indicators in health, education, and private sector development and expected progress targets. By that same time, IDA is due to complete specified numbers of reviews and assessments in financial accountability, procurement, public expenditure, investment climate, and poverty.

### **Forgiving Debt—Helping Heavily Indebted Poor Countries**

The Administration requests an additional \$75 million for the Trust Fund for Heavily Indebted Poor Countries (HIPC). These funds will go towards fulfilling the President's commitment at the G-8 Summit in Canada to contribute to the projected HIPC Trust Fund financing shortfall. The HIPC Trust Fund finances debt forgiveness of heavily indebted poor countries that have committed to economic reforms and pledged to increase domestic funding of health and education programs. The President's request also provides \$300 million to fund debt reduction for the Democratic Republic of the Congo under the HIPC Initiative. In addition, \$20 million will fund the cost of debt reduction under the Tropical Forest Conservation Act, allowing benefiting countries to use forgone debt payments to fund forest preserves and other activities to protect tropical forests and the species that inhabit them.

#### **Debt Reduction**

For the designated 26 Heavily Indebted Poor Countries (HIPC) that have begun to receive debt reduction thus far, spending on health, education and other social investments as a share of gross domestic product has increased from six percent in 1999 to a projected nine percent in 2002. Uganda, which completed its HIPC debt reduction in 2000, increased its spending on health and education from five percent in 1999 to a projected nine percent in 2002. Uganda is using HIPC debt relief to eliminate grade school fees, which had been a major impediment to enrollment, and to expand the country's successful HIV/AIDS awareness program.

The Administration believes that offering indebted poor countries new loans and debt forgiveness at the same time risks their return to crushing indebtedness—the very condition debt forgiveness seeks to resolve.

In order to address this situation, the Administration recently proposed a one-year moratorium on new federal loans or loan guarantees to countries that receive debt forgiveness. Should countries demonstrate serious economic gains before the moratorium ends, agencies may resume new lending. Loans to the private sectors in these countries are not affected by this policy. The Administration hopes that this policy will bring an end to the historically vicious cycle of indebted poor countries.

## World Summit on Sustainable Development

The World Summit on Sustainable Development in August 2002 engaged more than 100 countries and representatives of businesses and NGOs in developing and implementing results-focused partnerships in the areas of water, energy, and hunger. At the end of the Summit, new relationships and partnerships were forged, and a global commitment was reached to halve the proportion of people who lack access to clean water or proper sanitation by 2005. The 2004 Budget supports these partnerships with \$337 million in international assistance funding.

## Middle East Partnership Initiative

The President's Budget includes \$145 million for the Middle East Partnership Initiative. This framework will permit the United States to work with other donors, academic institutions, the private sector, non-governmental organizations, and governments in the Arab world to expand economic, political, and educational opportunities for all. Potential programs include literacy training and scholarships for girls and women, technical assistance to Arab members of the World Trade Organization, and assistance to NGOs working for political reform. Existing U.S. assistance programs in the Middle East will be reviewed to ensure that aid is reaching as many people across the region as possible, with an emphasis on women and children.

## Assistance to Refugees and Disaster Victims

### Refugee Admissions

Since 1975, the State Department's Refugee Admissions program has resettled nearly 2.5 million refugees from all over the world. A refugee is defined as a person outside of his or her country of nationality who is unable or unwilling to return because of persecution or a well-founded fear of persecution on account of race, religion, nationality, membership in a particular social group, or political opinion.

The President's Budget includes over \$1 billion to provide humanitarian assistance to refugees, internally displaced persons, and other vulnerable persons worldwide. These funds will allow international and non-governmental organizations to provide shelter, safe water, and health care, among other services to people fleeing persecution, or natural disaster,

such as those living near the volcano eruption in Goma, Democratic Republic of Congo. These humanitarian assistance funds also support the admission of refugees to the United States.

## Supporting International Environmental Programs

The Administration actively participates in the development of bilateral and multilateral agreements to better manage the world's most valuable natural assets. The 2004 Budget includes \$286 million in development assistance funding for environmental programs. USAID proposes about \$155 million for global climate change programs. The United States continues to be the largest donor to the Global Environment Facility (GEF), a multilateral fund that helps developing countries mitigate environmental problems with potential global impact. The Administration has pledged \$500 million over the next four years for the GEF.

## Rejoining the United Nations Educational, Scientific, and Cultural Organization

The President's Budget provides \$71.4 million to support renewed U.S. membership in the United Nations Educational, Scientific, and Cultural Organization (UNESCO). In September 2002, President Bush announced that the United States would return to UNESCO and that, "This organization has been reformed and America will participate fully in its mission to advance human rights, tolerance, and learning."

## Increasing the Number of Peace Corps Volunteers

The first American many people around the world meet is a Peace Corps volunteer. The President wants more such volunteer “ambassadors” in the field contributing their skills and initiative to foreign communities. The budget provides \$359 million to support 10,000 volunteers by the end of 2004. This increase will keep the Peace Corps on track to reach the President’s goal of 14,000 volunteers by 2007. The added funds will open new programs and be targeted to assist host countries and local communities through such activities as business development and prevention of HIV/AIDS. In 2002, Peace Corps began working in East Timor, Peru, Botswana, and Swaziland. In 2003, Peace Corps will set up new programs in Chad, Albania, Azerbaijan, and Fiji.



An outdoor school at the Dadaab Somali refugee camp in Kenya.

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## Carrying Out the President’s Management Agenda and Building a World Class Diplomatic Corps

Over 60,000 employees from more than 40 federal agencies work at 261 posts overseas. The embassy bombing murders of 12 Americans and over 200 foreign nationals in Kenya and Tanzania demonstrated that many existing embassies do not meet current security standards. The 2004 Budget provides \$1.5 billion for embassy security, construction, and maintenance, an increase of \$208 million over 2003. This level of funding will enable the State Department to address major rehabilitation needs of embassies and consulates around the world, as well as fund major security-related construction projects.

Proposed funding for 2004 will enable the construction of secure embassies in eight countries including Ghana and Panama. In addition, annex buildings for USAID will be constructed with State Department funds in several countries including Ghana and Nigeria.

The State Department and USAID are working to implement the President’s Management Agenda (PMA) and build a world class diplomatic corps. As the PMA scorecard shows, the Department of State and USAID face stiff management challenges. Over the last year, both agencies have made progress in addressing these problems. The State Department for example, is on schedule to implement its Regional Financial Management System. USAID has made considerable progress on a model allocating resources based on objective performance criteria. The Secretary of State may need more personnel management flexibility to accomplish our objectives.

The Department and USAID are working together to identify information technology (IT) systems where collaboration would be beneficial, beginning with financial management systems.

## Completing the Diplomatic Readiness Initiative

This budget completes the Diplomatic Readiness Initiative by funding 399 additional foreign and civil service officers to help the Department effectively implement the President’s foreign policy goals. The initiative will fill critical staffing gaps, properly train staff and better respond to crises and emerging priorities. This is the third year of funding for this major initiative. In total, the Administration has requested 1,158 new staff for the Department of State. The Administration expects the Department’s recruiting efforts to show reduced time in getting new officers to posts

abroad with the proper language, economics, and management skills needed to carry out American foreign policy.

USAID is also undertaking a major effort to increase its ability to effectively implement programs. As a step toward strengthening the workforce, the budget proposes hiring up to 50 additional foreign and civil service staff in key areas, such as HIV/AIDS.

### **Visa and Consular Services**

Since September 11, 2001, the Department of State has increased resources for visa application reviews, doubled the number of names on the Lookout System, improved collaboration with law enforcement agencies using new legal authorities to access relevant background information and strengthened clearance processes.

Beginning in 2003, the Department of Homeland Security will assume responsibility for the policy guidance and regulation governing visa issuance to refine visa processes further to meet security concerns.

### **Rightsizing the U.S. Government Presence Overseas**

The President's "Right-Sized" Overseas Presence Initiative, a part of the PMA, is intended to define who will work for the federal government overseas, determine how much each United States employee overseas costs and evaluate if these people are fulfilling a need where they are located.

There are several key initiatives underway within the rightsizing agenda. Within the next two years, all of the initiatives will fundamentally change how federal agencies think about their plans for staffing overseas through fostering better monitoring, evaluation and management of U.S. staff overseas and more closely linking performance and management to the budget.

The first step within the right-sizing initiative was to develop a profile of the current U.S. government staff overseas, including part-time and foreign workers. The U.S. government is responsible for more than 90,000 people (including dependents) overseas. Costs per person range from \$90,000 to \$665,000 per year. Overseas staffing and cost data collection have been systematized in the formal annual agency budget submission process.

The four right-sizing initiatives currently underway include:

- The development of a better way for posts to link budgets to performance and staffing to mission goals through the Mission Performance Planning and Bureau Performance Planning processes;
- A review of the staffing patterns, costs, security issues and missions at posts in one region of the world. OMB chose Europe and Eurasia and has been collaborating with the State Department and the General Accounting Office to develop a framework to right-size existing embassies worldwide;
- Regionalization of functions and developing existing or new U.S. regional centers on each continent; and
- The development of a cost-sharing mechanism to distribute the costs of constructing and maintaining new embassies worldwide in order to make sure that all agencies with staff overseas fully recognize and take into consideration all costs associated with sending staff overseas. The initial year of this cost-sharing mechanism is included in the 2004 Budget proposal.

The goal is to assure that the United States has the staff it needs to carry out the specific functions required in each overseas post and that decisions as to whether existing or new staff are needed are based on true cost and justified in terms of performance and impact.

## Information Technology

The State Department is forging ahead to improve Information Technology (IT) management and provide staff the IT backbone needed to successfully carry out the President's foreign policy mission. IT investments are funded at \$939 million in 2004, an increase of five percent from the 2003 request. The State Department began a comprehensive modernization of its IT infrastructure in 1997. Before then, many key systems were obsolete. Even in 2001, most employees did not have direct Internet access. The priorities of the Department's strategic plan are an increasingly transparent and interconnected diplomacy. In fall 2002, the Department created the E-Diplomacy Office to put these priorities into effect. The Department intends to further upgrade systems including cables, messaging, knowledge management, and document archiving. These functions will be replaced by a new, fully integrated, state-of-the-art system called SMART. SMART is funded at \$10 million in 2003 and \$15 million in 2004. The new system is being designed with the cooperation of its users and will embody the multi-agency operating environment of U.S. staff.

USAID is moving ahead with increasing the agency's IT planning and project management capacity to ensure successful implementation of the worldwide automated accounting and procurement systems. The agency is working with the State Department to improve its telecommunications capacity and infrastructure security. IT investments are funded in 2004 at \$20 million, an increase of \$7 million from 2003. USAID continues to actively support the E-Government Initiative by participating actively on E-Travel, Integrated Acquisition, and E-Training working groups, and by using E-Government technologies to enhance agency business functions. USAID and the Department of State intend to work together to develop a joint enterprise architecture to guide IT investments and outline where joint IT systems are feasible.

## Performance Evaluation of Select Programs

Ten State Department programs and seven International Assistance Programs were reviewed for performance effectiveness. Some of the programs evaluated are highlighted in the accompanying table. For further details refer to the Department of State and International Assistance Programs chapter in the *Performance and Management Assessments* volume.

Program	Rating	Explanation	Recommendation
International Development Association (IDA)	Adequate	IDA is well-managed, but lacks a system to measure, monitor, and evaluate overall results. The latest resource replenishment agreement calls for the establishment of such a system.	Provide \$1.0 billion for IDA, \$100 million of which is contingent on IDA meeting specific benchmarks by spring 2003 in establishing the results measurement system.
Overseas Private Investment Corporation (OPIC)—Finance	Results Not Demonstrated	The program generally manages its resources well, but it cannot adequately show what results it achieves due to the lack of long-term goals and insufficient annual performance measures.	Establish specific and appropriate long-term goals and annual performance measures that capture the range of developmental impact that OPIC's programs have on foreign countries, including private sector growth, job creation, transfer of skills and technology, improvements in corporate citizenship, and infrastructure enhancements.

Program	Rating	Explanation	Recommendation
Security Assistance to Sub-Saharan Africa	Results Not Demonstrated	It is difficult to evaluate the performance of these programs, because performance plans do not contain annual goals and program evaluations are not geared to measure achievement of performance goals.	Restructure performance plans to include separate annual and long-term goals, targets and baseline information. Collect performance information in a standardized manner and include in performance reports that evaluate progress related to key performance goals.
Capital Security Construction Program	Moderately Effective	In recent years the embassy construction program has undergone a reorganization of its strategic planning and its management team. These steps, including the development of standardized embassy design, should result in increased performance in future years.	Increase funding for capital security construction, including additional funds for a new overseas capital security cost sharing initiative that will ensure that all agencies with staff overseas pay their fair share of the cost to keep those employees safe and that agencies think carefully before posting additional personnel overseas.
Anti-Terrorism Assistance (ATA) Program	Moderately Effective	The ATA program builds the capacity of key countries abroad to fight terrorism by training foreign officials in anti-terrorism techniques and building working relationships that enhance cooperative efforts. The program meets annual performance goals for number of courses taught and course content and effectively teaches anti-terrorism skills.	Increase funding to continue all training programs currently underway and to expand to new areas that respond to the evolving terrorist threat. Improve long-term performance measurement to enable a quantifiable assessment of increased anti-terrorism capabilities of key countries.
USAID Development Assistance—Population	Moderately Effective	The program has been effective in increasing contraceptive use in assisted countries and has improved its measurement of results, but does not allocate resources across countries to respond to greatest needs.	Fully fund the program at the 2003 level of \$425 million. Better align resource allocation with country needs through improved USAID performance budgeting model.

## Update on the President's Management Agenda

	Human Capital	Competitive Sourcing	Financial Performance	E-Government	Budget and Performance Integration
<b>Status</b>					
<b>Progress</b>					
<p>The Department of State is making progress but continues to face challenges in meeting the PMA goals. The Department has improved in the first quarter of 2003 in four of five PMA areas. Continued senior management commitment will be required throughout 2003 to maintain momentum and address red status conditions. That commitment includes aggressively addressing financial performance standards, successful implementation of the OPM Human Capital Assessment and Accountability Framework, improved execution of competitive sourcing, completing an Enterprise Architecture and security certification, and linking performance to budgeting decisions. The Department remains at yellow for progress in E-Government initiatives because of improving, but still insufficient, implementation of enterprise architecture and security remediation plans.</p>					

	Human Capital	Competitive Sourcing	Financial Performance	E-Government	Budget and Performance Integration
<b>Status</b>					
<b>Progress</b>					
<p>USAID has made little progress over the past year and continues to face serious challenges in improving management given the low starting point and complexity of programs. However, for the first time the USAID Inspector General was able to provide at least qualified opinions on three of the agency's financial statements and the reporting capacity of the accounting system was expanded. The agency developed a model for allocating resources based on objective criteria and began implementing full-cost accounting. The agency does not have a comprehensive workforce planning model for its multiple personnel systems, nor does it have a plan to compete any of the nearly 600 commercial positions on the FAIR Act inventory. Senior USAID staff are well aware of these problems and continue to refine their approach to improving management at the agency.</p>					

Over the past year, the Administration has developed and implemented two new Presidential Management Initiatives in the international affairs arena: Reform of Food Aid Programs and a "Right-Sized" Overseas Presence. Each of these initiatives challenged existing policies and was designed to improve program management and outcomes. The following table provides the status of these two initiatives.

Initiative	Status	Progress
Reform of Food Aid Programs		
A "Right-Sized" Overseas Presence		
<p><i>Arrow indicates change in status since baseline evaluation on June 30, 2002.</i></p> <p><b>Reform of Food Aid Programs.</b> The Administration has successfully reformed federal food aid policy to provide greater certainty of funding, target funding to feeding hungry people and to increase consistency in USDA and USAID management of food aid programs. Based on these successes, this initiative will no longer be monitored as part of the President's Management Agenda.</p> <p><b>A Right-Sized Overseas Presence.</b> Over the past year, OMB and the State Department have worked with agencies to develop a capital surcharge proposal to cover agency costs for housing their employees at facilities paid for by the State Department. The Administration will continue to advance this initiative.</p>		

**Department of State and International Assistance Programs**  
(In millions of dollars)

	2002 Actual	Estimate	
		2003	2004
<b>Spending</b>			
Discretionary Budget Authority:			
Department of State:			
Diplomatic and Consular Programs.....	3,673	3,937	4,164
Embassy Security, Construction, and Maintenance .....	1,474	1,305	1,514
International Organizations and Conferences .....	1,724	1,617	1,561
Andean Counterdrug Initiative .....	645	731	731
All other programs .....	1,869	1,551	1,793
Subtotal, Department of State .....	9,385	9,141	9,761
International Assistance Programs:			
Foreign Military Financing.....	4,007	4,107	4,414
Nonproliferation, Anti-Terrorism, Demining and Related Programs .....	398	372	385
Economic Support Fund .....	2,670	2,490	2,535
Development Assistance.....	1,150	1,366	1,345
Child Survival and Disease Programs .....	1,338	1,474	1,495
Multilateral Development Banks.....	1,026	1,437	1,555
Millennium Challenge Account.....	—	—	1,300
Peace Corps .....	275	317	359
Global AIDS Initiative .....	—	—	450
Famine Fund .....	—	—	200
All other programs.....	2,785	2,669	3,001
Subtotal, International Assistance Programs.....	13,649	14,232	17,039
Other International Affairs Activities:			
Export-Import Bank.....	738	596	-37
<i>USDA International Food Aid (non-add)</i> .....	850	1,185	1,185
All other programs.....	613	609	674
Subtotal, Other International Affairs Activities.....	1,351	1,205	637
Total, Discretionary Budget Authority <sup>1</sup> .....	24,385	24,579	27,438
Mandatory Outlays:			
Department of State .....	470	369	452
International Assistance Programs.....	-1,801	-1,628	-908
Other International Affairs Activities .....	-941	-3,957	-346
Total, Mandatory outlays .....	-2,272	-5,216	-802
<b>Credit activity</b>			
Direct Loan Disbursements:			
Department of State .....	1	1	1
International Assistance Programs.....	438	142	47
Export-Import Bank .....	920	813	395
Total, Direct loan disbursements.....	1,359	956	443
Guaranteed Loans:			
International Assistance Programs.....	562	704	676
Export-Import Bank .....	7,859	7,543	8,662
Total, Guaranteed loans.....	8,421	8,247	9,338

<sup>1</sup> Includes \$1.3 billion in 2002 supplemental funding.