February 14, 2011

A year ago, I wrote that the FY 2011 budget request from the State Department and USAID reflected a renewed commitment to use our resources “smartly and strategically to get the best possible results for the American people.”

Since then, we have been working hard to become even more efficient and effective. We released a wide-ranging study, the first-ever Quadrennial Diplomacy and Development Review, that identified what we do well, what we could do better, and what we should just stop doing altogether. It is changing the way we do business, from the role of our Ambassadors to the way we manage contracts.

In that spirit of responsible management, and on behalf of President Obama, I am pleased to submit our Fiscal Year 2012 Executive Budget Summary and Congressional Budget Justification.

It is a lean budget for lean times. We have scrubbed it for every dollar of savings, because we know we have to make the most of our resources. This budget request contains the funding we need—but only the funding we need—to accomplish our mission and advance America’s security interests.

This funding supports diplomats and development experts who are working every day to protect our national security, promote our economic growth, and project our values in virtually every country on Earth. They are carrying out a robust foreign policy that is leading the world in solving the most complex challenges of our time, from thwarting international terrorism to stopping the spread of catastrophic weapons, fixing the global economy, and advancing human rights and universal values. They are helping identify and prevent conflicts before they start. They are helping to secure nuclear materials, fight international crime, assist human rights defenders, restore our alliances, promote the rights of women and girls, and ensure global economic stability.
This is a smart investment on the part of the American people, and one that pays excellent returns. The State Department and USAID budgets amount to only 1 percent of total federal budget outlays. As our partners at the Department of Defense often point out, these investments save money and lives by preventing conflicts and helping end them more quickly. Deploying our diplomats and development experts is less expensive than deploying our troops.

In a complex and rapidly changing world, America can’t afford simply to keep up with events; we must stay ahead of them. With the resources outlined in this budget, the State Department and USAID will continue to make the American people safer, promote economic growth at home and abroad, and project our interests and values.

By including performance information throughout, this Congressional Budget Justification also serves as the Annual Performance Report for FY 2010 and the Annual Performance Plan for FY 2012.

**Our request**
This year, our budget request has two components:

1) **Our extraordinary, temporary costs** in Iraq, Afghanistan, and Pakistan. These are expenses we are incurring as our civilian employees take on more responsibility in these frontline states. We expect them to be phased out over time, as these countries rebuild and take responsibility for their own security. Borrowing terminology used by our colleagues at the Defense Department, we have identified these costs as Overseas Contingency Operations, or OCO. Our OCO request for FY 2012 is $8.7 billion.

2) **Our core budget.** This represents our ongoing investments to advance America’s security and economic interests. Our core budget request for FY 2012 is $47 billion.

This two-pronged approach will look familiar to many business owners, who make their own budgets in a similar way. Separating extraordinary shorter-term outlays from our core ongoing expenses makes our budget more transparent. It also reduces overlap and duplication by aligning our spending in the frontline states with that of the Department of Defense.
Our OCO request represents an increase of $3.6 billion, compared with our calculation of OCO costs for FY 2010. This increase is in line with State and USAID’s growing responsibilities in the region, which I will explain in the next section of this letter. More importantly, it represents considerable overall savings for the American people. As we shift from military responsibility to civilian responsibility in Iraq, the Defense Department’s total OCO costs will drop by $45 billion in the coming fiscal year. Every business owner I know would gladly invest less than $4 in order to save $45.

For our core budget—the ongoing programs that accomplish our basic mission of advancing America’s security and interests—our $47 billion request represents a 1 percent increase over the comparable FY 2010 level.

In keeping with these tough economic times, our core budget reflects hard choices based on a clear view of where a dollar of funding could have the greatest impact. For instance, we have eliminated all the bilateral assistance programs in six countries compared with FY 2010, and we have cut more than 50 percent from economic and development assistance in over 20 other countries. We have shifted funds into programs that save money, such as stronger monitoring and evaluation systems, efforts to consolidate information technology, procurement reform at USAID, and targeted investments in innovative development programs.

Let me detail some of the work that our requests for OCO and core budget will support.

**Iraq, Afghanistan, and Pakistan**

By the beginning of FY 2012, much of the work previously done by our military in Iraq will have become the responsibility of State and USAID. For example, we will be taking over a vital police training program. We also are keeping civilian employees on the ground in the critical areas of Kirkuk and Mosul, and we have expanded the facilities at our embassy and consulates to support all the U.S. Government agencies working in Iraq. These efforts are helping to secure the gains made by the U.S. military in recent years.

Even as we take on these new tasks, we will also continue development assistance programs that create jobs, strengthen the agricultural sector, and help improve the Iraqi government’s capacity to provide essential services to its people. These programs are designed to work themselves out of existence. Ultimately,
they will help the Iraqi people support themselves. Already, the Government of Iraq matches our assistance dollar-for-dollar.

A similar shift will take place in Afghanistan. The Afghan government is taking increasing responsibility for its own security, in keeping with the goal of completing that transition by 2014. During this transition, our civilians are called to do more than ever. Civilians’ work on governance, agriculture, law enforcement, and development was particularly instrumental in the progress we’ve seen in Helmand and Kandahar, and civilians will be critical in helping us consolidate these gains as we move toward a transition to Afghan responsibility. This budget request reflects those growing responsibilities. Two years ago, our civilian presence there was just 320 people; for FY 2012 we seek to maintain civilian staffing of 1,500. These personnel and programs are essential to meeting President Obama’s goal of disrupting, dismantling, and defeating Al-Qaida.

Success in Afghanistan also depends on building stability across the border in Pakistan. While we are clear about the challenges we face there, we have made a long-term commitment to work with the Pakistani government on a wide range of issues. We are collaborating closely on security and counterterrorism because this work directly improves our ability to protect the American people. But we also know that strong democratic institutions and civil society groups will help Pakistanis in their fight against violent extremism. So we will support key civilian initiatives in energy, agriculture, education, and other sectors that affect the daily lives of the Pakistani people. These steps are strengthening a relationship that is important to our own security, as well as Pakistan’s.

Conflict Prevention, Complex and Fragile State Support

In addition to our work in the frontline states, we are focused on preventing and responding to conflict and crisis. In an interconnected world, conflict, even in distant countries, has become a far greater threat to the United States than ever before. Weak governments and failing states create safe havens for terrorists and insurgencies; conflicts near major economies shock distant markets and reverberate on Wall Street and, even more importantly, on Main Street.

We have allocated over $4 billion for programs in a number of fragile states—an increase of nearly 14 percent over 2010, which we funded by moving resources out of programs in lower-priority countries. This will fund our civilian
and military efforts to help stabilize Yemen, increase resources for Sudan, support the continued rebuilding in Haiti, and provide additional resources for democracy and governance programs in countries throughout Africa.

Our budget also sustains our commitment to key partners like Israel, Jordan, and Mexico.

The events of recent weeks offer a powerful reminder that we can’t predict where every crisis will occur. So in addition to maintaining the Complex Crisis Fund, we have created a small but innovative pilot program—supported with additional commitments from the Department of Defense—that will allow us to respond jointly to unforeseen events by deploying resources quickly. This is a perfect example of the way we are coordinating our efforts and becoming more flexible, so we can make the most of every dollar from the American taxpayer.

**Human and Economic Security**

Our national security depends on our ability to deal with the urgent and the long-term, all at the same time. So, even as we work to prevent and respond to urgent conflicts, we are also responding to longer-term challenges to human and economic security. These efforts—fighting disease and hunger, responding to climate change, and more—support the rise of capable new players who can help us solve regional and global problems and help protect our nation’s security. We will not end hunger or stop climate change in the next year, but making progress on these long-term challenges produces tangible benefits for the American people and for people around the world.

One of our priorities is health, a sector where we have traditionally seen bipartisan support. Poor health destabilizes entire countries. HIV strips societies of their police and army, farmers, teachers, and health workers and leaves behind millions of orphans. But countries with healthy populations are far more likely to remain stable. Through the Global Health Initiative, we will target our funding to our highest priorities – from HIV to maternal and child health – while also helping developing countries build their capacity to help their own people. And to achieve even greater efficiency, we are identifying programs that used to operate in individual silos and tying them together in an integrated, coordinated system of care. We will save money and save lives.
A second priority is hunger. Countries where under-nutrition is rampant are much more likely to suffer from violence and instability. Since 2007, when global food prices skyrocketed, there have been riots over food in more than 60 countries. But we know we can’t fight hunger in far-flung places from our desks in Washington, D.C. So we are focusing our efforts on country-led strategies—plans designed and executed by local experts who know their countries best. We are also investing in innovative research and extension programs that help farmers grow more food and earn more money, which addresses the root causes of hunger and poverty while expanding markets.

The third priority is climate change. Helping countries adapt to the effects of changing temperatures and sea levels has a double benefit: It is good for them, and for us. They are more likely to grow their economies and become better trading partners. We made good progress in 2010 at the environmental summits in Copenhagen and Cancun. To build on this progress, we will act as a catalyst for private investment in clean energy technology, promote sustainable landscapes, and help developing countries adapt to the effects of climate change. Along with the Treasury Department’s request and direct loans from OPIC, our request will allow us to meet our commitment to help mobilize climate financing and reduce greenhouse gas emissions.

Our final priority is humanitarian relief that responds to natural disasters, conflict, and forced migration. When the devastating earthquake hit Haiti in 2010, we supported relief workers who helped find survivors, supplied food and shelter, and offered lifesaving health care. Providing humanitarian relief is in our interests, and it is consistent with our national values.

In all our efforts, we are focused especially on elevating the role of women and girls. As President Obama’s National Security Strategy points out, women are critical to advancing social, economic, and political progress. They are also a terrific return on investment: numerous studies have shown that when women receive schooling or the boost of a small loan, they flourish, their children flourish, and so does the greater community.

Our Workforce

We have ambitious goals, to match a wide-ranging set of challenges. Doing this work takes talented people with the resources they need to do their jobs.
Unfortunately, both State and USAID have historically been unable to hire enough in-house experts and had to rely too much on contractors. The Government Accountability Office has raised concerns about insufficient staffing at embassies and consulates, long vacancies in key positions, and inadequate expertise in foreign languages. Former Secretaries of State Powell and Rice began building up both agencies, and President Obama and I are continuing that effort wholeheartedly.

But building civilian power is not a short-term effort, and it can’t be done in one budget cycle. This budget includes the addition of 197 State Department positions, which represents gradual growth of our full-time Foreign Service and Civil Service—only 1 percent—and allows us to focus our new hires on the highest-priority countries and programs. For USAID, the budget will support 165 new positions to manage our highest-priority development programs and reform the way USAID procures goods and services, allowing us to deliver aid more effectively and at a lower cost.

I know this is a tough time to be requesting even a small growth in staff. But these positions are essential to building our civilian capacity and advancing the interests of the American people.

President Obama has asked the State Department and USAID to accomplish more through diplomacy and development than ever before. I am confident that we are up to the challenge. We have a President who sees the world as it is, while never losing sight of the world as it should be; a global corps of dedicated diplomats and development experts; and a country—open and innovative, determined and devoted to our core values—that can, must and will lead in this new century.

I look forward to working with all of you to make the best use of our resources as we advance America’s interests around the world.

Hillary Rodham Clinton
Secretary of State
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