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FROM DEPUTY SECRETARY NIDES TO ALL COMS,
ASSISTANT SECRETARIES, ASSISTANT ADMINISTRATORS, USAID MISSION
DIRECTORS, AND AGENCY HEADS AT POST

E.O. 13526: N/A

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SUBJECT: **INTRODUCING NEW STRATEGIC PLANNING AND BUDGETING
PROCESSES**

1. Summary: The Department of State and the U.S. Agency for International Development (USAID) are poised to strengthen and, in some cases, launch significant changes to our strategic planning and budget formulation processes to help us do our business better, faster, and smarter. Additionally, the State Department will build upon recent USAID efforts to implement more rigor throughout the strategic planning, budgeting, performance and program management, and project design processes - to promote a more results-oriented culture. These changes are in keeping with streamlining efforts and will position State and USAID to realize the call of the Quadrennial Diplomacy and Development Review (QDDR) to better manage for results. Key changes include:

* Replacing the Mission Strategic and Resource Plan (MSRP) and Bureau Strategic and Resource Plan (BSRP) with two products: 1) a three-year strategic plan, and 2) a separate, shorter annual resource request that is directly informed by the three-year strategic plan;

* Integrating objectives defined in the three-year strategies into the annual planning and reporting processes, to reduce redundancy and streamline information gathered for resource requests, performance reporting, and external communications;

* Shifting the way planning occurs so that State and USAID bureau planning helps shape subsequent planning and budgeting in the field for both State and USAID;

* Incorporating multi-year budgeting into the annual resource requests as appropriate; and

* Implementing a stronger State evaluation policy, and creating toolkits to guide State bureaus and missions in project design, program management, and performance management.

2. Over the next three years, we will roll out the new strategic planning process in a series of three phases, with a subset of bureaus and missions undergoing the new planning process for each phase. Europe and Eurasia (State EUR and USAID E&E) and the Western Hemisphere (State WHA and USAID LAC) will be this year's regional bureaus. The new budgeting deliverables will be submitted by all bureaus and missions for the FY 2014 budget build. Effective immediately, the MSRP and BSRP are discontinued. Further information about the new processes, the deployment, and timeline can be found on the new planning, budgeting, and performance management Diplopedia website: <http://diplopedia.state.gov/PlanningandBudgeting> .
END SUMMARY

THE RATIONALE FOR NEW PROCESSES

3. The QDDR's key reforms to all State Department and USAID planning and budget processes better align policy priorities, strategic responses, budget planning, and performance management and strengthen the links between diplomatic and development efforts. Both agencies face increasingly difficult budget environments. This challenge presents an opportunity to reaffirm our commitment to rigorous planning and performance management that will maximize the impact of every dollar spent. As described in State 52422 of May 27, 2011, and in the recently released USAID Policy Framework 2011-2015, USAID has undertaken efforts to strengthen and better align Agency policies, strategies, resource planning, and program evaluation. The reforms described in this ALDAC build upon and complement efforts already underway. Our new and integrated approach to strategic planning and budgeting is designed to help bureaus and missions make informed, evidence-based decisions; develop innovative ways to cope with tight budgets; prioritize resources; ensure alignment with key Administration policies and compliance with legislative requirements; and keep taxpayers and Congress better informed about how we carry out our joint mission.

4. The QDDR noted that strategic plans should provide sound guidance for the development of budgets, programs and, ultimately, for operations. However, submitting a combined strategic plan and resource request every year erodes the value of longer term strategic planning. Both bureau and mission strategies will transition from being one-year plans completed annually in conjunction with the budget request to multi-year strategies that are completed every three years prior to the annual budget process in order to serve as a framework for resource analysis.

5. Currently, strategic planning begins at the mission level as part of the annual budget request process in the MSRP, before bureaus do their planning. The new planning process will change this approach, with State and USAID bureau and sector strategic planning informing mission strategic planning so that regional, programmatic and sector priorities can shape mission planning and budgeting. Objectives defined in multi-year strategies will serve as the framework and basis for the annual resource request and performance reports from bureaus and missions. As a result, State and USAID bureaus and missions will be better positioned to justify needed shifts in resources in their annual budget request to reflect external factors, strategy implementation, and program performance. Multi-year strategic plans will also provide bureaus and missions with a deeper understanding of priorities and tradeoffs, and will help missions identify the most important short-term needs that must be addressed in the midst of a crisis.

NEW STRATEGIC PLANNING PROCESS

6. The new multi-year planning process will entail two distinct bureau planning and mission planning steps, and result in three major planning products: Joint Regional Strategies (for regional bureaus), Functional Bureau Strategies (for functional bureaus), and Integrated Country Strategies (for missions). Each planning product will cover a three-year period, and bureaus and missions will be required to submit a strategy only every three years, instead of the current annual strategy submission. The timing of the processes outlined below is discussed in detail in paragraphs 16-18.

* Joint Regional Strategy (JRS): The JRS is a three-year strategy developed collaboratively by State and USAID regional bureaus to identify the priorities, goals, and areas of strategic focus within a region. The JRS aims to provide a forward-looking and flexible framework within which bureaus and missions can prioritize engagement and resources, and respond to unanticipated events. The JRS process will be co-led by the State and USAID regional bureaus, with participation and input from relevant functional bureau stakeholders. Missions will be involved in JRS development, as the JRS will set the general parameters to guide mission planning. Bureaus will develop the JRS in the Fall, in advance of the mission and bureau budget-build process, so that it can serve as the foundation and framework for resource planning and for the analysis and review of the annual mission and bureau budget requests. Bureaus will complete a JRS once every three years, with the ability to adjust it in interim years as circumstances necessitate.

* Functional Bureau Strategy (FBS): In addition to playing an active role in JRS development, functional and management bureaus at the Department of State will also engage in a three-year strategic planning process. Like the JRS, the multi-year FBS will establish a direction and set of priorities for the bureau. Functional Bureau and Joint Regional Strategies should complement and reinforce each other, and relevant functional bureau stakeholders should be involved in JRS development. Likewise, it is important for key State and USAID stakeholders to participate in the development of the FBS, as appropriate. USAID will continue to develop agency functional strategies through its Policy Task Team process in addition to strategic plans conducted for health and food security sectors. The QDDR also calls for "Bureaus and technical disciplines [to] establish strategies...that articulate priorities within a region or sector." Interagency strategic plans have been developed for the health and food security sectors. In the future, State and USAID may consider selecting the highest priority sectors for global strategy development based on a joint assessment of need for integrated interagency approaches and with reference to existing policy frameworks.

* Integrated Country Strategy (ICS): As with the bureau-level planning, posts will also develop a multi-year strategic plan: the Integrated Country Strategy. Based on mission scope and complexity, the ICS will comprise some of or all of the following components: 1) All missions: the Joint Mission Goals, 2) All missions: the Diplomatic Strategy, 3) As warranted: the Security and Justice Strategy, and 4) As warranted: the Development Strategy (consisting of the USAID Country Development Cooperation Strategy (CDCS), State, and other agency programs, as necessary). As called for in the QDDR, the Chief of Mission will lead the ICS process. The ICS will require a coordinated and collaborative whole-of-government planning effort, with involvement by mission personnel from State, USAID, and other U.S. Government agencies operating at the missions. The ICS serves as the foundation and framework for mission resource planning and for the analysis and review of the annual mission resource request, reflecting each mission's efforts to project the regional strategy within that country. Streamlining principles will guide the development of the ICS, ensuring that the process is flexible, depending upon the size and complexity of the mission, and that the utility of the process will be balanced with the level of effort required at the mission level. Detailed guidance on the structure and process for ICS development will be provided in the coming months as the ICS process and its component strategies are finalized.

o USAID Country Development Cooperation Strategy (CDCS): As outlined above, the USAID CDCS will serve as the foundation of the Development Strategy of the

ICS and the development objectives and associated resources that it outlines will feed directly into annual budget requests. The CDCS is a five-year strategy that focuses on USAID-implemented resources while incorporating input from the State Department, host country government, and other partners. The USAID Mission Director submits the CDCS under Chief of Mission Authority. After a review process that includes consultation with the State Department and other USG agencies, the USAID Regional Bureau Assistant Administrator approves the CDCS with clearance from the Bureau of Policy, Planning, and Learning. All USAID missions will complete a CDCS by the end of FY 2013; additional details and current guidance can be found here (<http://inside.usaid.gov/PPL/offices/spp/cdcs.cfm>)

ANNUAL BUDGET PROCESS

7. Over the next three years the State Department and USAID will phase in two major changes into the annual budget process:

- * Replacing the Mission Strategic and Resource Plan (MSRP) and Bureau Strategic and Resource Plan (BSRP) with Mission Resource Requests (MRRs) and Bureau Resource Requests (BRRs); and

- * Initiating a phased transition to multi-year budgets as part of the annual budget submission.

Our intent is to align budgets better to our multi-year strategies through the implementation of these processes.

8. The first change, beginning with the FY 2014 budget cycle, is to replace the MSRP and BSRP with the MRR and the BRR, which will be completed annually in the Spring. The MRR and BRR will focus on resources required to implement the strategies outlined in bureau and country-level multi-year strategies, and will not duplicate the strategy components previously included in the MSRP and BSRP. They are envisioned as more concise submissions built on fiscal data sources aligned with budget execution. The MRR and BRR should align with the goals of the JRS, the FBS, and the ICS. Because it will take several years to transition all bureaus and missions to the new multi-year strategies, those not immediately transitioning will have flexibility in the interim period to align objectives in the MRR and BRR using their existing policy and programmatic priorities as established in the 2013 MSRP/BSRP. The budget requests will continue to be built from the missions up, using familiar data sources and structures, with the MRR developed first each year, followed by the BRR. Detailed guidance on building the FY 2014 MRR and BRR, along with information on technical and IT support, will be issued in February 2012.

9. In the FY 2014 budget cycle, State and USAID will ensure that budgets better support strategic priorities by transitioning both planning and budgeting to multi-year formats. Multi-year budgeting can and should provide missions, bureaus, and Department and USAID leadership with a clearer picture of the long-term cost of initial investments, encourage greater transparency and predictability of requirements, and facilitate better identification of anticipated needs. Recognizing the inherent uncertainties of the current fiscal environment, all of these benefits will help to prevent the initiation or continuation of programs with unsustainable out-year costs. The first phase of the transition will begin with specific programs and accounts in the FY 2014 budget cycle. Details of the scale and scope of multi-year budgeting will be issued in the FY 2014 budget guidance and will include specific missions, bureaus, and accounts that will undertake multi-year budgeting as part of the FY 2014 budget build. We plan to issue this guidance in February 2012.

IMPROVED PERFORMANCE MANAGEMENT

10. Rigorous performance management and program evaluation in the Department will support multi-year strategic planning and budgeting better. These efforts will provide the Department and USAID with information necessary to determine whether programmatic investments are achieving anticipated results. In conjunction with the MRR and the BRR, the Department will use existing processes, such as the State Operations and Foreign Operations Annual Performance Plans (APPs) and Foreign Operations Performance Plan and Report (PPR), to capture and assess progress toward regional and agency goals. USAID has separate policies and practices that have already been introduced, and those policies and instructions will continue to apply to USAID bureaus and missions. (NOTE: Paragraphs 11 through 13 below apply to the State Department and Department-managed programs only; Paragraph 14 applies to USAID.)

11. Evaluation: The QDDR requires the use of program evaluations as a key management tool. As part of this effort, the Department will issue an updated evaluation policy and guidance in January 2012. This policy will complement the USAID Evaluation Policy issued in January 2011 (www.usaid.gov/evaluation) .

12. Performance Management: The use of sound performance management practices, including but not limited to evaluation, to guide decision making, shape strategy formulation, influence resource allocation, and assess progress in achieving outcomes is crucial for improving the Department's effectiveness. Accordingly, State bureaus should incorporate evaluation findings and performance data into their planning to inform the development of JRS and FBS. In Winter 2011-12, the Department will issue several tools to assist State bureaus with strengthening performance management.

13. Program Management: Bureau and mission strategic plans are the foundation for establishing program and project performance management methods that State bureaus should then incorporate into the execution of their activities. In the next few months, the Department will issue tools to help Department program and project managers better design and manage their programs and projects. On December 9, USAID launched its Project Design Guidance as part of its program cycle (<http://inside.usaid.gov/PPL/offices/spp/upload/FINALPDGuidance120911.pdf>) . This guidance plays a key role in USAID's effort to ensure that project design is informed by evidence and supported by appropriate, analytical rigor.

14. USAID's Policy Framework 2011-2015 (http://www.usaid.gov/policy/policyframework_sep11.html) , released in September 2011, provides USAID staff and partners worldwide with a clear sense of USAID's development priorities, operationalizes the Presidential Policy Directive on Global Development (PPD-6) and QDDR into principles to be applied across the Agency's portfolio, and describes the Agency's agenda for institutional renewal, USAID Forward. As part of USAID Forward, USAID is strengthening and better linking components of its program cycle. This includes revitalizing strategic planning through the CDCS process; issuing new project design guidance; strengthening performance management; and issuing a new evaluation policy. These are described in a paper (<http://inside.usaid.gov/PPL/offices/spp/upload/ProgramCycleOverview.pdf>) that has been sent to all USAID bureaus and missions. USAID has separate policies and practices that have already been introduced, and those will continue to apply to USAID bureaus and missions.

TIMING AND TRANSITION PERIOD

15. Implementing these new processes across all missions and bureaus is a large and complex effort. Implementation of multi-year strategic planning will be done in phases and began with the launch of the JRS in November 2011. Paragraphs 16 - 20 outline the general timing of the roll-out.

16. JRS Roll-out: The implementation of the new JRS process will be rolled out over a three-year period. Each Fall for

the next three years, two sets of State regional bureaus and their counterpart USAID regional bureaus will develop a three-year Joint Regional Strategy as described in paragraph 6. Missions in those two regions will begin developing their Integrated Country Strategies (ICS) the following Summer (see paragraph 18). EUR/E&E and WHA/LAC will complete the JRS by February 2012. These bureaus will consult with their missions and key stakeholders in Washington to develop the JRS. Once finalized, these two Joint Regional Strategies, along with the FY 2014 budget guidance, will be shared with the missions in those regions to serve as a resource for both the mission ICS process and the FY 2014 budget build. The regions for Phase 2 (Fall 2012) and Phase 3 (Fall 2013) will be identified soon.

17. FBS Roll-out: State Department functional bureaus and offices will develop multi-year strategic plans separate from the JRS, also on a staggered roll-out schedule. Starting December 2011, a set of functional bureaus will develop strategies each Fall or Winter over the next three years. Eight State Department functional and management bureaus and offices volunteered to develop a multi-year strategy this year: Consular Affairs (CA), International Organization Affairs (IO), Information Resource Management (IRM), International Narcotics and Law Enforcement Affairs (INL), International Security and Nonproliferation (ISN), Political Military Affairs (PM), the Coordinator for Counterterrorism (S/CT), and the Special Representative for Global Partnerships (S/GPI). The functional bureaus slated for Phases 2 and 3 have not yet been identified.

18. ICS Roll-out: Taking their cue from the relevant JRS, missions will develop a three-year ICS in the Summer following the roll-out of the JRS. Accordingly, missions in EUR/E&E and WHA/LAC will begin the ICS process in late Spring/early Summer 2012. Due to the large number of missions that must complete an ICS, Phase 1 launch of the ICS will be staggered through the Summer and Fall to accommodate bureau capacity constraints to provide technical support and review. For countries that require a Development Strategy, State and USAID will work together to sequence appropriately the CDCS and ICS.

19. Budget Process: The budget formulation and request process will continue to take place in the Spring. All missions will complete their FY 2014 MRRs and submit them to their bureau in the Spring. Following submission of the MRR, all regional and functional bureaus will develop and submit their FY 2014 BRR in late Spring. This applies to all Bureaus, not just those completing a JRS or a multi-year FBS in Phase 1. Additionally, a subset of accounts, regions, and missions will be selected to submit multi-year budgets in phases, beginning with the FY 2014 budget submission. This subset will be identified and communicated in the next two months. Detailed guidance for the MRR, BRR, and multi-year budget submissions will be provided in February 2012.

20. Transition Period: Missions and bureaus that will not be completing the new multi-year strategies in Phase 1 will have

the flexibility to use existing policy and priority documents, including the FY 2013 MSRP and BSRP, as the foundation for the FY 2014 resource request. They will be able to provide any updates to the FY 2014 MRR and BRR if needed.

21. At the conclusion of the roll-out, all bureaus and missions will be on a schedule to complete or revise their strategic plans every three years, with opportunities to make adjustments in interim years as needed. Bureaus and missions will continue to develop and submit annual budget requests.

INFORMATIONAL RESOURCES AND NEXT STEPS

22. Over the next year, ten bureaus (two regional and eight functional, as identified in paragraphs 16 and 17) will engage in the new strategic planning and budgeting processes, and missions in the regions undertaking the JRS this year will begin developing their ICS. Over the next three years, we will transition all regional and functional bureaus to the new strategic planning, budgeting, and performance management processes. Given the tight budget in the years ahead, this approach will help position the Department and USAID to align limited resources against the highest level strategic priorities informed by program performance.

23. Lessons learned during implementation of Phase 1 of the new planning and multi-year budgeting process will be captured and incorporated into subsequent iterations.

24. Technical Support: Bureaus will continue to have the lead for managing their planning and budgeting processes. However, staff from F, RM/BP, USAID/A/BRM, and USAID/PPL will be closely involved with the roll-out of these processes and will coordinate closely with bureau planners to assist with implementation and provide support to bureaus and missions as needed. For the bureaus which started crafting a JRS or FBS in November 2011, there is a dedicated team to facilitate planning sessions, assist with logistics, and provide as much support as bureaus require.

25. IT Support: For this first phase of implementing the new JRS and FBS, products will be submitted in Microsoft Word documents. After the first phase, a determination will be made as to whether a new or existing IT system solution is needed for the strategy submission.

26. We recognize that this process will be challenging. In order to support a more effective transition, we have a core team that will work with bureau planners and will also undertake extensive outreach to missions and bureaus. This outreach will include:

* A Diplopedia website (<http://diplopedia.state.gov/PlanningandBudgeting>), the primary resource for all details on the roll-out of the

new planning, budgeting, program management, and performance management processes. This site includes detailed timelines, reference materials, tools, and other resources. It will be updated continuously as more resources become available.

* Guidance, updates, targeted communications, and training will be provided throughout the roll-out. More information on the planned outreach timeline can be found at the Diplopedia Site.

* Senior level officials in F and RM will be available to discuss this process with Chiefs of Mission, and we plan to conduct a series of conference calls to monitor the process as it moves ahead.

* A dedicated e-mail address (PlanningandBudgeting@state.gov) will be monitored regularly for questions, issues, suggestions, and concerns related to the new processes and their roll-out.

27. Minimize considered.

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