

U.S. Agency for International Development Strategy for Financing Self-Reliance

The U.S. Agency for International Development (USAID) submits this report pursuant to Section 7019(e) of Division F of Public Law 116-6, which incorporates by reference the requirements of House Report 115-829 and Senate Report 115-282.

Introduction

This *Strategy* outlines USAID’s vision to reorient our programming and investments over the next five years to better support governments, civil society, and the private sector in our partner countries in mobilizing, managing, and investing domestic resources while reducing and ultimately ending dependence on donor funding.

The ability of a country to finance its own development is central to USAID’s overall strategic pivot to the Journey to Self-Reliance (J2SR). In this context, the Mobilization of Domestic Resources (DRM) is an important component of ending the need for foreign assistance.

USAID’s investments in DRM have helped national and local governments to develop the legal frameworks, systems, and capabilities to implement transparent, efficient, and business-supporting revenue-generation systems. However, USAID has learned through programmatic experience that helping achieve greater self-reliance in our partner countries depends on much more than a government’s ability to raise taxes or otherwise generate greater sums of public revenue. To advance on the J2SR, governments must spend public funds in an accountable, transparent, and effective manner that supports overall economic and social development. Governments and businesses also must be able to harness domestic and international private capital over time to participate in growing and healthy economies.

For these reasons, USAID has made the strategic decision to adopt a more holistic, whole-of-Agency approach to DRM called Financing Self-Reliance (FSR), our financing blueprint for the J2SR. This *Strategy* promotes the transition from a DRM approach that has centered on public revenues to one that targets and advances the spectrum of public and private resources.

The goal of this *Strategy*, which covers Fiscal Years (FY) 2019–2023, is to improve self-reliance in our partner countries by strengthening their ability to finance their own development. FSR responds to this challenge by helping governments, civil society, and the private sector to (i) mobilize increased public revenue and ensure local and national governments raise and spend these resources in an accountable, transparent, and effective manner to support development priorities; and, (ii) create the conditions under which the private sector can operate effectively and financial markets can mobilize and distribute domestic and international capital efficiently.

The framework, and the elements put forward in this *Strategy*, ensure the following:

- 1) USAID’s programming to improve FSR reflect the high-level principles articulated in USAID’s new Policy Framework, *Ending the Need for Foreign Assistance*;
- 2) Programs are strategic and informed by evidence and continuous learning; and
- 3) USAID coordinates and aligns its efforts with those of other U.S. Government (USG) Departments and Agencies.

The J2SR will require long-term commitments from both USAID and governments, civil society, and the private sector in partner countries and, in many of them, will involve efforts that extend beyond the life of this *Strategy*. However, by the end of FY 2023, USAID expects that staff across all our Operating Units will have the tools, knowledge, and the capacity to integrate FSR across the Agency’s Program Cycle, work collaboratively with USG Departments and Agencies and partners to move countries closer to financial self-reliance, and use data and evidence to help partner countries develop mechanisms to address their financing needs more holistically.

Strategic Context

Across the developing world over the last decade, Official Development Assistance has plateaued and has fallen in many regions. At the same time, domestic public revenue and private capital have increased rapidly.

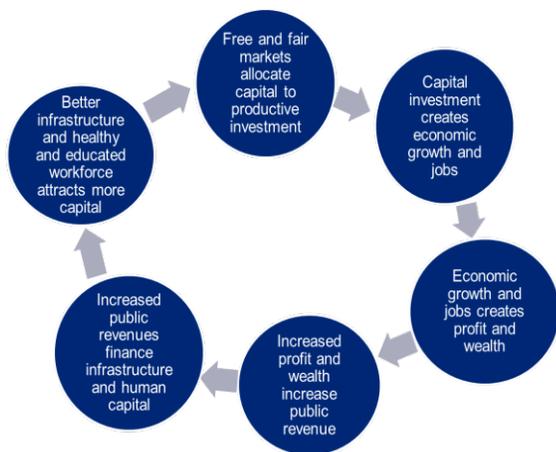
Recognizing the financial implications of the J2SR, in the fall of 2017 USAID Administrator Mark Green called on a team in USAID/Washington to arm USAID’s Missions with the knowledge and tools to support governments, civil society, and the private sector in our partner countries in mobilizing development resources increasingly on their own. A framework for FSR came out of those efforts.

After considering the experiences of a range of countries, the Agency determined that a country’s J2SR depends on much more than the ability to generate and manage greater sums of domestic revenue. It also depends on systems and safeguards that ensure government transparency and accountability, and on the enabling environment for private enterprise and capital to advance national progress through growth-enhancing investments. FSR provides a holistic framework for creating the conditions necessary to unlock and mobilize financing for development from several public and private sources. The framework reflects five core pillars:

1. DRM;
2. Public Financial Management;
3. Fiscal Transparency and Accountability;
4. The Enabling Environment for Private Investment; and
5. Functioning Financial Markets.

The graphic below shows key characteristics that a country that demonstrates strong financial self-reliance would typically possess. A more in-depth description of FSR’s five pillars appears in Annex 1.

These pillars are not programmatic silos, but interconnected and mutually reinforcing features of a country’s economic governance “ecosystem.” For instance, a country’s ability to mobilize adequate revenues depends on a vibrant private sector. At the same time, private investment flows to countries with strong human capital; reliable transport and electricity; and clear “rules of the game,” including transparent and even-handed revenue systems.



The public investments that contribute to healthy, well-educated, and well-connected populations depend, in turn, on growing capital markets; well-managed, commercial markets for government debt; and opportunities for the private and public sectors to work together on the creation of public goods, such as infrastructure.

FSR can help governments, civil society, and the private sector in our partner countries to create a cycle in which free and fair markets allocate capital for investment; investment creates jobs and growth; jobs and growth create prosperity;

prosperity increases public revenue; and well-managed public revenue builds human capital and modern infrastructure. An overview of the characteristics of countries that demonstrate strong financial self-reliance appears in Annex 2.

Goals and Objectives

Consistent with USAID’s Policy Framework, and with the foremost goal of ending the need for foreign assistance, the overarching goal of this *Strategy* is to bolster self-reliance by strengthening the ability to finance their own development journeys through the following:

- 1) Mobilizing increased levels of public revenues, while ensuring local and national governments spend these resources in an accountable, transparent, and effective manner to support development priorities; and
- 2) Enabling conditions under which the private sector can operate effectively and financial markets can mobilize and distribute domestic and international capital efficiently.

Achieving this vision demands that USAID’s staff have the tools to recognize, through the FSR lens, the systemic constraints to positive development outcomes, regardless of the sector. In the health sector, for instance, common phenomena, such as shortages and stock-outs, could have as their root causes by inefficiencies in a country’s health supply-chain, perhaps solved by bolstering market conditions to source medicines and health commodities locally from private distributors. Similarly, low rates of early-grade literacy could be the result of delays in the disbursement of government funds, which streamlining the transfers of funds could remedy so schools and students have the textbooks and resources they need to ensure learning outcomes. FSR approaches such as these can catalyze systemic improvements that lead to better health, education, and other desirable outcomes for the citizens of our partner countries.

FSR’s objectives are also inextricably linked with those of the Agency’s new Private-Sector Engagement Policy, which calls on USAID’s staff to work more strategically and effectively with the private sector to integrate market-based approaches across our work. By engaging the private sector and supporting enterprise-driven solutions, USAID can strengthen entrepreneurship, mitigate risks for private investment, address gaps in financial-market infrastructure, and mobilize domestic savings for developmental investments.

The Women’s Entrepreneurship and Economic Empowerment Act, which mandates gender analyses to reduce gaps between women and men in development programming, will inform USAID’s work in FSR as well. At the same time, gender-informed implementation complements the White House Women’s Global Development and Prosperity (W-GDP) initiative by addressing constraints in the enabling environment—and at the policy level—that hinder women’s economic empowerment and thus constrain economic growth and greater self-reliance.

Monitoring

Rigorous monitoring and evaluation (M&E) will accompany the implementation of this *FSR Strategy*. By measuring and analyzing the outcomes and impacts of USAID’s investments in FSR, and by sharing those findings, we hope to achieve several important objectives:

- 1) Demonstrate what works and what does not;
- 2) Improve programmatic performance;
- 3) Target resources at the most-effective interventions; and
- 4) Increase accountability through measurement, analysis, and the dissemination of information.

USAID will monitor and evaluate our programming in FSR through regular reporting, including periodic evaluations and stock-taking exercises. A comprehensive communications strategy and plan will ensure the wide sharing of lessons-learned and progress to support continuous learning and improve the effectiveness of our programming.

Performance Metrics

Prior to now, USAID and the wider development community have assessed DRM performance largely by reference to improvements in compliance with tax law and the mobilization of revenue. This strategy envisions a deeper set of performance metrics across the five pillars of FSR. Given the broad nature of the FSR framework, we anticipate variations by country in M&E plans. However, examples of common indicators include the following:

- Percentage of the approved government budget executed in the fiscal year;
- Percentage of tax returns filed/paid on time;
- Percentage of property taxes collected (commercial, residential, urban/rural, *etc.*);
- Percentage of audits by the Auditor General (or other supreme audit institution) with substantive involvement by civil society;
- Average number of days to receive a business license; and
- Number of days required to process a loan, by business size.

To the extent possible, USAID’s Operating Units will report these activity- and program-level indicators by using sex-disaggregated data.

USAID’s FSR Working Group will track high-level strategic impact through the Self-Reliance Roadmaps developed to track a country’s progress on its development journey. These indicators focus on commitment, capacity, and performance in our partner countries, and the Bureau for Policy, Planning, and Learning updates them annually. USAID’s Operating Units will develop,

track, and report activity- and project-level indicators through the Agency's established processes. M&E plans will include indicators, sex-disaggregated where available, determined by the goals, objectives, and components of individual activities.

Interagency Coordination

USAID's goals, priorities, and targets for FSR programming are the product of close and continuous collaboration with several Federal Departments and Agencies—most notably the Office of Technical Assistance of the U.S. Department of the Treasury (Treasury), the Millennium Challenge Corporation (MCC), and the U.S. Department of State (State). USAID regularly consults with these Departments and Agencies to ensure the U.S. Government's assistance in the area of FSR delivers the appropriate response, in the most cost-effective way, through the organization best-suited to the task.

During the creation of this *Strategy*, USAID met with counterparts from State, Treasury, and MCC both to present the document and solicit feedback. While USAID owns this *Strategy*, its success will depend on coordinated and harmonized inputs from these key interagency stakeholders. As USAID transitions from the development to the implementation of this *Strategy*, the Agency will continue to consult with these U.S. Government partners to share progress on existing programs, explore opportunities to further programmatic alignment and synergy, and collectively learn from ongoing efforts. These consultations will ensure that U.S. assistance in these areas is effectively coordinated and leveraged for maximum impact.

Engagement with the Development Community

USAID consulted with the Modernizing Foreign Assistance Network (MFAN) throughout the development of the FSR framework. The Agency also consulted the Center for Strategic and International Studies, whose recent research has helped to shape the dialogue on what works and why in DRM. USAID will continue to engage these and other non-governmental partners that make important contributions across the five pillars of FSR.

Roles and Relationships

USAID has established an internal FSR Working Group, led by a Deputy Assistant Administrator from the Bureau for Economic Growth, Education, and the Environment (E3) and which includes representation from the Center for Excellence on Democracy, Human Rights, and Governance (DRG); E3's Offices of Economic Policy, Trade and Regulatory Reform, and Private Capital and Microenterprise; the Bureau for Policy, Planning, and Learning; the Bureau for Global Health; and USAID's Restructuring Management Unit. The Working Group regularly consults with the Agency's regional Bureaus, Independent Offices, and Missions to share insights and solicit feedback on guidance and tools both already disseminated and under development.

E3 and the DRG Center will reorganize their expertise as needed to prioritize and optimize support to the field. Responsibilities will include technical leadership, communications, M&E and learning, field support, and training. With the transition of staff and competencies from current organizational structures to the new Bureau for Development, Democracy, and Innovation, the Agency will pursue more formal integration.

Planning and Funding Sources

The development of new, five-year Country Development Cooperation Strategies (CDCS) will drive implementation of the J2SR. All Missions scheduled to complete their strategies by the end of 2020 must consider and address issues related to FSR across their programming. The specific nature of the integration of FSR in each CDCS and its Results Framework will depend on country context, shaped through discussion with host-country partners. Following the adoption of a new CDCS, the Mission and other Operating Units will plan FSR-related activities in detail, which will deepen policy dialogues in partner countries to help set shared priorities, identify what is achievable, and forge agreements on how to engage to achieve needed reforms.

Addressing Political Will

The success of this *FSR Strategy* will hinge, in part, on efforts to sustain, broaden, or deepen the level of engagement with partner governments, civil society, and the private sector.

USAID recognizes that decisions around raising and spending revenues, or around the regulation of markets, are inherently political. USAID will engage actively with a range of institutions and actors in our partner countries to foster the necessary political will to implement reforms that will lead to greater financial self-reliance. In this regard, our staff are expected to “think and work politically,” to assess and reassess continually the political, economic, and social forces that influence policy-making and development outcomes.

Next Steps

Building on the foundation of existing FSR tools, resources, and experience, USAID/Washington will actively support our staff to incorporate FSR into their portfolios. Specifically, current work streams will accomplish the following:

- Complete guidance and a timetable to assess progress in implementing this *Strategy*;
- Develop training and skills-development resources in FSR for USAID’s staff and partners;
- Strengthen the Agency’s tools and resources to identify challenges and opportunities in FSR;
- Enhance the awareness, understanding, and integration of FSR across the Agency’s Program Cycle; and
- Advance learning and expand the evidence base of what works to help governments, civil society, and the private sector in our partner countries to become more financially self-reliant.

USAID is energized to work with our partners to carry out this *Strategy* and help maximize the impact of investments in FSR. While the elements that make up FSR are not new, their integration into a single platform is a substantial advance. FSR opens a new conversation with governments, civil society, and the private sector in partner countries about financing their own development—one in which the focus is not on funds from USAID and other donors, but instead on how they can harness their own resources to advance their development agendas. In this way, we all move closer to the overall goal of ending the need for foreign assistance.

ANNEX 1

The Five Pillars of Financing Self-Reliance

FSR consists of five integrated core areas, or pillars:

- 1. Domestic Revenue Mobilization:** Domestic revenue mobilization refers to the design and administration of public revenues, including taxes collected by the domestic tax agency and customs; fees, fines, licenses, rents; and royalties on natural resources as well as any other sources of public revenues. Adequate public revenues provide governments with funds needed to alleviate poverty and deliver services and infrastructure. FSR refers to efforts to assist partner countries with collecting any and all types of public revenues. Support for the enabling environment of local philanthropy is also included in FSR.
- 2. Public Financial Management (PFM):** Public financial management systems include the set of laws, rules, systems, and processes used by governments to allocate public funds, undertake public spending, manage public debt, account for funds, and audit results as well as analysis of these areas. Strategic planning linked to available resources; budget formulation and execution; treasury operations; management of procurement, contracts, and assets; monitoring and reporting on revenues, debt, and expenditures; and public sector debt management are all important facets of PFM. Goals of assistance also include governments abiding by their laws and regulations while spending and managing their resources effectively, efficiently, and transparently.
- 3. Fiscal Transparency and Accountability:** Fiscal transparency and accountability require government commitment and robust accountability ecosystems that include capable and committed oversight bodies in the executive, legislative, and judicial branches as well as in subnational governance structures. Civil society, the private sector, faith-based organizations, and the media are vital to ensuring fiscal transparency and accountability, and they can and should play constructive ‘watchdog’ roles over the use of public resources. To do so effectively, they need the capacity and opportunity to participate in policy and budget processes; access to information concerning forecasts, revenues, debts, budgets, and public expenditures; the ability to form and operate freely; collaboration channels with government; and access to information on anti-corruption and accountability mechanisms and their operations.
- 4. Enabling Environment For Private Investment:** The enabling environment for private sector investment requires that countries have secure property and ownership rights; strong rule of law and enforcement of contracts; transparency; inclusive competition policies; efficient public-private partnership systems and institutions; well-developed entrepreneurship ecosystems; and robust anti-corruption enforcement. Trade policies and agreements should set rules for modern customs and border management and allow the private sector to participate in international commerce and foreign direct investment.
- 5. Functioning Financial Markets:** Functioning Financial Markets refers to liquid, diverse, transparent and well-regulated local financial markets, which require appropriate financial sector regulation and oversight; empowered oversight institutions; strong financial institutions and intermediaries; well-developed financial market infrastructure and supporting systems (e.g., settlement systems, credit bureaus, rating agencies, securities exchanges, etc.); and effective risk mitigation tools and other financial instruments.

ANNEX 2

Characteristics of Countries Demonstrating Strong Financial Self-Reliance				
Domestic Revenue Mobilization	Public Financial Management	Fiscal Transparency and Accountability	Enabling Environment for Private Investment	Functioning Financial Markets
<ul style="list-style-type: none"> • Generate adequate levels of government revenue from a wide range of domestic sources (taxes, customs, the prudent use of natural resource wealth, etc.) • Fair and efficient tax administration • Broad tax base • Limited tax evasion and tax leakage 	<ul style="list-style-type: none"> • Strong macro-fiscal framework • Effectively formulate and execute budgets • Able to manage procurement and assets • Capably monitor revenue mobilization and expenditure • Regularly report to oversight institutions and the public-at-large • Ability to manage public debt 	<ul style="list-style-type: none"> • Strong oversight systems in the executive, legislative, and judiciary ensure that public funds are allocated and expended transparently, effectively, and inclusively • Sub-national governments and non-state actors have the ability and opportunity to directly participate in debate and discussion concerning fiscal policies and the use of public resources • Strong rule of law and contract enforcement • Robust anti-corruption enforcement 	<ul style="list-style-type: none"> • Secure property and ownership rights • Strong rule of law and contract enforcement transparency • Inclusive competition policies, • Efficient PPP systems and institutions • Robust anti-corruption enforcement • Reasonable risk mitigation • Rules-based trade policy environment • Modern and transparent and simplified customs and border management procedures 	<ul style="list-style-type: none"> • Appropriate financial sector regulation • Empowered oversight, institutions • Strong financial institutions and intermediaries • Well-developed financial infrastructure and supporting systems • Robust pension and savings systems • Effective risk mitigation tools