PRINCIPLES OF PUBLIC SECTOR DOMESTIC RESOURCE MOBILIZATION IN DEVELOPING COUNTRIES

We encourage the use of targeted U.S. Government (USG) assistance to support willing partner countries to raise more public sector revenue towards effective and sustainable development. Developing countries want to pave a path toward long-term self-reliance by financing more of their own development objectives and aid should support this aspiration. Greater public revenue[1], when managed well, reduces the need for aid, strengthens fiscal sustainability, enhances countries' stability, and increases citizen capacity to hold governments accountable.

Currently, the U.S. Government underinvests (less than 0.2% of the overall foreign assistance budget) in public sector domestic resource mobilization (DRM), and efforts that exist are scattered across multiple U.S. agencies without a coherent strategy or approach. To accelerate country transitions from aid to broader forms of partnership with the United States, **the USG should make a strong and focused commitment to supporting public sector DRM**. The U.S. Agency for International Development (USAID) and the Department of Treasury can lead in the development of an inter-agency DRM strategy that commits to improving accountable, public sector revenue generation in partner countries, while describing each agency's role and approach towards achieving ambitious metrics and outcomes.

The following are guiding principles for how the U.S. Government can effectively assist partner governments in mobilizing domestic public revenues for development:

1 **Ensure DRM investments are pro-poor, sensitive to gender, and support inclusive economic growth.**
The U.S. Government should carefully analyze its programming to ensure DRM efforts do not undermine development objectives by promoting systems that are regressive, overburden people in poverty and other disadvantaged groups, or constrain long-term, inclusive economic growth. The U.S. should support DRM programs that reduce gender biases in revenue collection systems and other barriers to women's participation in the economy.

2 **Align with country priorities.** USG public sector DRM assistance should support and reinforce the development priorities of partner countries. All development resources in a country – including public revenues, official development assistance, or private finance – should be allocated in line with the priorities of their people as reflected in an inclusively-drafted national development plan.

3 **Take a holistic approach to DRM.** U.S. Government investments in DRM should include a range of contextually-appropriate approaches, including:
   ▶ Transparent and inclusive processes for setting national DRM strategies, priorities, policies, and budgets;
   ▶ Accountable governance of public finances and expenditures that are gender-responsive;
   ▶ Strengthened judicial, anti-corruption, and supreme audit institutions; and
   ▶ Reduction of tax evasion and tax avoidance that deprive developing countries of considerable revenues.

4 **Engage citizens and other development stakeholders in DRM activities.** Because paying taxes is at the heart of the citizen-state compact, citizens should be included in shaping tax policy, monitoring tax decision making, and holding government officials accountable for resource generation, expenditures, and outcomes. The U.S. Government should support citizen engagement in DRM activities as a part of its technical assistance program.

5 **Transparently assess progress.** The U.S. Government should work with partner countries to develop transparent benchmarks for evaluating equitable DRM and achieving DRM priorities. Agencies should monitor results – both of bilateral programs and U.S.-supported multi-donor pooled funding arrangements – and share them publicly.

[1]*There are a number of ways in which partner countries can enhance domestic resource mobilization (e.g., creating stronger domestic capital markets), but the largest barrier to self-reliance in the majority of developing countries is the insufficient mobilization of public revenues.*