Financing Self Reliance Learning Summit

Promoting Commitment to Building Financial Self-Reliance

May 28, 2020, 9:00 – 11:00am

Abstract

Effective, citizen-centered governance relies on the availability of resources to effectively respond to citizen needs, systems to efficiently and accountably allocate and use those resources, and domestic financial markets able to sustainably support both public and private sector borrowing needs. Building these systems requires not only passage of legal and regulatory reforms, but commitment from partner government counterparts to fully implement reforms. As noted in USAID's Self-Reliance Learning Agenda, there are multiple pathways to fostering meaningful commitment and capacity which differ by context and level of governance (local, sub-national, national, and regional). On May 28, 2020, **Chemonics**, **Urban Institute**, and **USAID** held a panel discussion and interactive breakout sessions designed to explore methodologies for fostering partner government commitment to transparent financial governance practices.

Key Takeaways

1. Practitioners should understand the relevant local systems and harmonize efforts to build commitment to FSR aligning where possible with existing incentives and structures.
2. Use of political economy analyses and other relevant data helps cultivate productive working relationships based on shared acknowledgement of challenges, build trust (especially with new counterparts), and generate achievable objectives.
3. COVID-19 and other unforeseen circumstances reinforce the need to build flexibility into programming.

Notes from Panel Discussion

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USAID Guatemala Fiscal and Procurement Reform Project
DAI

Featured Case Study

Eva Matsiko
Chief of Party
USAID Uganda Governance, Accountability, Participation and Performance Program
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Featured Case Study

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Chief of Party
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Featured Case Study

How has political turmoil in your operating environment affected your project?(or in Uganda, the lack of political change?) What opportunities or liabilities has it presented related to commitment?

- **In Tunisia**, the new government came into power with a mandate for change. In this environment, government counterparts were receptive to new tools and ways of working.
- **In Guatemala**, a tax administration corruption scandal prior to the project severely affected the credibility of the entity. The project began on the heels of final arrests of tax officials, providing an opportunity and mandate for the project to not only provide ambitious capacity building but also assist with rebuilding the image of tax administration. The scandal resulted in the tax administration instituting a dedicated "modernization team" with the goal of quickly building the capacity of the administration. This team became a quick champion for the project and continues to play a critical role in continuing the commitment (political and financial) of the Government of Guatemala to sustain the successes achieved during the activity.
- **In Uganda**, despite the president being in power since 1986, there are several layers of incentives within the system that provide unique opportunities and challenges. Rather than focusing on the national level, the project uses political levers at the local level and within national level accountability institutions to better understand incentives and secure commitment.

What are the commitment assets that emerged?

- **In Tunisia**, there is a high level of human capital and public sector human resource capacity, andthe country is a regional leader in information technology (IT). Despite this, the government does not use 21 century IT tools. The project had to convince counterparts that change was inevitable given the growing IT sector. The project identified and **put tools in the hands of champions** within government organizations and helped those champions demonstrate quick wins and results so skeptics could commit. The **willingness to change started by looking at the system from within.**
- Given the emerging commitment opportunities for IT use **in Tunisia**, the project shifted its focus to not only capacity building of the tax systems, but also toward embedding IT solutions that formalize improved governance in the tax system. COVID-19 has accelerated this digital transformation. Commitment for reforming laws takes a long time, but **changes to systems and processes can be done relatively quickly**.
- **In Uganda**, the parliamentary oversight committee headed by the **opposition party has been helpful in creating general commitment** to accountability mechanisms. Project activities were in their interest because they wanted to demonstrate they are keeping their political counterparts accountable. The project also worked with media at the district level to increase the demand for government oversight.
- Also, **in Uganda,** incentives are varied – local politicians are held accountable to the community, so their incentives rely on meeting their communities' demands while local technocrats are instituted by the federal government and thus are less responsive to the community. Given the dynamic, securing commitment from both is a challenge, and multiple strategies to promote commitment are needed.

How did your project leverage adaptive management or political economy analysis to build commitment?

- **In Uganda,** the project used PEA to pull back the layers and better understand a counterpart institution that had been underperforming for seven years. The PEA helped the project understand staff incentives and morale and put down understandings on paper which would then be distributed as concise findings to decision makers. It **provided a frame for organizing realities that were generally known but not systematically analyzed**. The project used excerpts from the larger PEA report and held one-on-one meetings with key actors to discuss findings and recommendations as opposed to widely sharing the report. Sharing findings in this way **helped reduce feelings of defensiveness and increased individuals' commitments** to acting on PEA findings.
- **In Guatemala**, the project focused on **operationalizing CLA**. USAID's flexibility was an enabler for successful CLA integration and served as a great asset. CLA particularly helped the project because senior

personnel in the tax administration changed frequently. As a result, the project focused its support toward technical and mid-level staff. The project leveraged the tax admin modernization team who became partners supporting project efforts on a daily basis including with quick PEAs. **Through CLA the project made commitment tangible** – project tasks were aligned with the tax administration's annual operating plan to ensure resources would be allocated.

- **In Tunisia**, we found that the project's second PEA – conducted by a local organization –, as opposed to the first which was more nationally focused, was more operational. It included a stakeholder analysis that ultimately helped steer activities.

Live Audience Questions

Did your projects align with other donor activities to collectively secure more commitment? How did this work?

- In Uganda, the project worked with multiple donors – USAID, DFID, and others who are focused on supporting institutions that support accountability.
- In Guatemala, the project collaborated closely with the IMF who did assessment checks on the tax administration. Many donors supported the assessment and the results not only informed the project's work plan but those of other projects as well. This initial base helped create organic coordination between multiple donors and projects. Collaboration with donors was not just meetings, it was mainly constituted workshops. The project with another three USAID projects on procurement reform to expand activities geographically.

Do you see programmatic conflicts--while the majority of funding to the developing world is now private capital vs donor money--critical parts of development esp. health--are still largely donor funded--which does little to advance the journey to self-reliance where it matters most (or a lot)--among the expenditure authorities of these underdeveloped economies--this is especially true for the very poor countries. This may be in conflict with the EG Bureau's goals of the JFSR. Comments?

- There need not be a conflict. The J2SR, and FSR specifically, acknowledges that foreign assistance will remain an important catalyst for change in our partner countries, and that the financing mix (public, private, domestic, international) will vary not only by country, but also by sector. In this regard, sectors such as health may continue to receive larger proportions of donor funding for some time. But what FSR challenges us all to do is to think about how to spend those 'development dollars for health' in ways that better mobilize or leverage non-donor sources of financing, including private capital. FSR shifts our thinking from 'doing' (e.g., delivering health services) to 'facilitating' (e.g., helping government and non-government actors deliver them sustainably).

The post-COVID world may drive us back to a world where private capital recedes dramatically and quickly, and donor funding will once again dominate--see the recent reports from the EIU on debt service ratio forecasts among LMICs--debt service will now dominate the expenditure side of their budgets. There are solutions -- but they involve important interventions into monetary policy sometimes more than fiscal policy, where USAID has not been involved for 20 years--any ideas on this?

- You are absolutely right. The COVID-19 response will challenge us to employ a variety of policy tools, including monetary policy, to help countries recover from the current crisis and better prepare themselves for future shocks. In addition to monetary tools, I do believe that fiscal policy can and must play a central role in countries' responses, and in this regard I would argue that governments have a multitude of options beyond simply accumulating more debt, which many do not have the space to do (think subsidy reform, reducing tax expenditures, reimagining public investment plans). In the spirit of this 'learning' summit, I would encourage you and others in this community to share lessons learned from prior experiences on what worked in previous crises and why.

Breakout Sessions

Breakout Group 1 – Programming Commitment to FSR

Moderated by Janine Mans
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There are certain procurement tactics that could help better assess commitment such as inception phases. Good analysis requires that it be done from the outset including at the CDCS level. USAID and partners need to have an adaptive mindset. It is important to look at more qualitative aspects of analysis and not just country road maps.

How might USAID strategies be designed to enable flexibility to consider changes in commitment?

- Building in mid-course stock taking exercises, AARs, and other internal feedback loop exercises that for adaptive management
- Cultivating adaptive skills and mindset in project staff and partners
- USAID can utilize an initial base PEA analysis to gauge the degree of commitment to FSR among stakeholders including the host country's government, civil society, and private sector. This can be updated periodically to make constant adjustment to program priorities.

How should USAID and implementing partners track changes in commitment to FSR-related reforms? How might the journey to self-reliance metrics be useful? What other indicators might be considered?

- Understand how local actors are measuring commitment and to incorporate these often more qualitative metrics into our measurement frameworks versus the quantitative indicators that are mandated
- Implementing partners should use repeated PEAs in close coordination with USAID

Breakout Group 2 – Commitment at Different Levels

Moderated by Sharon Van Pelt

- It is critical to look at the type of system that you have to understand and adapt to it. Start to create a culture of FSR that seeps into the system.
    - Efforts to mobilize resources at the local level should be accompanied by support for those entities responsible for identifying, planning/budgeting, and responding to local development priorities in a participative manner to encourage "buy-in" from the local populations – show good use of their taxes.
- Supporting efforts to build commitment to FSR at subnational and national levels include varying possibilities but also unique challenges.
- FSR at the local level is an important entry point as it builds a culture of and expectations for the ways in which government officials should operate and citizens can participate
- Commitment to FSR at the local level is greatly facilitated by support at the national level – implementing partners should support efforts to gain top level support as a precondition for supporting actors on the "front lines" of local FSR work.
- The private sector should be more strategically included in programming to build commitment to FSR at all levels.

Breakout Group 3 – Defining Commitment

Moderated by John Thissen

Commitment is a broad term; it sums up a host of institutions, policies, practices that investors and citizens come to trust or not. In areas that are central to a country's ability to Finance Self-Reliance, what are key areas of commitment that USAID should target?

- Importance of transparency:
  - Public policies change and evolve all the time, sometimes they are even negated. There needs to be greater transparency among citizenry to understand both inputs and expected outputs of such policies, which is especially critical to lead to greater resource generation (e.g. citizens are more eager to pay taxes if they know that they will get something out of a specific policy designed to help them or others)
  - Donors and implementers need to be precise about targeting when it comes to transparency initiatives and not be too aspirational. Targets have to be reflected "on the budget" for monitoring and commitment purposes. However, the reality is that governments often have very non-transparent ways of expending its resources through "off-budget" means.
  - Government commitments often begin with national development strategies. Practically, commitments need to be implemented and are crystalized when budgets are aligned with national strategies. Governments then need to devise plans to execute the budget, which need to be forward-looking and made transparent to maintain public accountability.
- Importance of rule of law:
  - Without rule of law it is difficult to convince investors and the private sector to finance public investments (e.g. hospitals, schools, water, sanitation), through which they seek a return on investment.
    - Rule of law is fundamental to investment and is distinct from fiscal operations and management. For instance, investors might still consider investing in countries with strong rule of law, even if they have abysmal fiscal deficits.
    - Example: The Filipino government's development strategy in the last 10 years included a provision on rule of law. Because it was advocated at the presidential level, the strategy had a lot more traction. If such provisions are advocated only by donors in a one-sided manner and not reciprocated by a government leader, it won't gain much traction.
  - Both rule of law and transparency in governmental financial operations must be strengthened in order to acknowledge the critical roles of the public and private sector in financing self-reliance.

How can these areas of commitment be made credible to investors and citizens?

- Importance of inclusion
  - Government commitments for spending should include societal members across various strata in order to promote inclusive growth. Both the public and private sector can collaborate to foster greater transparency in commitments (e.g. corporate social responsibility).

Breakout Group 4 – Financing Self-Reliance: Lessons from Various Sectors

Moderated by Meral Karan

Are there any unique challenges or approaches to FSR commitment in particular sectors? How can USAID and implementing partners incentivize government, private sector and community stakeholders in our partner countries to advance FSR reforms, particularly those that benefit multiple sectors at the same time?

- Need to understand the tension points between different sectoral needs and their indicators and how this fits together with overall FSR. Avoid impulses for earmarked taxes and focus on good fiscal practices. How do you get into the conversations of expenditure policy when you're also looking at competing sectoral demands? Look to building advocates with youth as they are the ones who are paying for the system.
- Stick to good fiscal practices, not just tax set asides for certain sectors.
- Take sectoral hats off when thinking about PFM and DRM. Focus not just on the splitting the pie, but also on building the pot.
- Better fiscal practices benefit everyone because it helps the entirety of the government. You have to communicate that these efforts are beneficial for everyone.
- It is important to have sectoral people and fiscal economists in the room.
- Example: In El Salvador, projects are building advocates in youth for payroll taxes as they are the ones paying for the system.

Recordings

Please find the full audio and visual recordings of the plenary sessions here.