



USAID
FROM THE AMERICAN PEOPLE



DOMESTIC RESOURCE MOBILIZATION

Financing Country-Led Development

HELPING COUNTRIES TO HELP THEMSELVES

Why Taxes Matter

Imagine a day without access to clean water, a home without electricity, or children without disease-preventing vaccines. These are conditions you will likely never face, thanks to taxes.



Health workers prepare for the trek to a village they serve.

© KELLY RAMUNDO / USAID

Like them or not, taxes and other domestic revenues pay for the public services we use: schools and hospitals in our communities; roads and bridges that we take to work; and police and sanitation workers who keep our neighborhoods safe and clean.

And yet, across much of the developing world, governments struggle to mobilize sufficient resources, leaving millions of people without access to even the most basic services.

While assistance from the United States and other developed nations has been instrumental in reducing global poverty, these contributions only fill a fraction of the funding gaps faced by developing nations. By helping countries to better mobilize their own resources, we can empower partner countries to take command of their own development.

Mind the Gap

Development assistance alone is not sufficient to meet the needs of the developing world. Even with foreign aid, countries face substantial funding gaps across key sectors:

- Many countries only reach one-third of the \$86 per capita in health spending needed to achieve universal coverage of essential health services;
- An additional \$35 billion per year would be needed to secure universal access to safe drinking water and sanitation world-wide by 2030.



Malawi classroom. © MARGARET KOZIOL



Installing Micro-jet Irrigation in Zimbabwe. © FINTRAC, INC.

- An additional \$38 billion per year is needed to ensure that all girls and boys have access to basic and secondary education.

While USAID and other donors play an important role in advancing these issues, their assistance makes up only a small fraction of the overall need. However, when governments gain the tools and knowledge needed to put their own resources to work, countries can move closer to ending extreme poverty while providing the social services and infrastructure on which vibrant, safe, and healthy societies depend.

FUNDING DEVELOPMENT IN EL SALVADOR

With a new government taking office in June 2004, El Salvador faced tremendous challenges as it sought to rehabilitate basic infrastructure and expand access to social services. Tax revenues were among the lowest in Central America and tax evasion was rampant, fueled by public distrust of government.

Recognizing the vast need for development, as well as the untapped potential of the country's domestic resources, El Salvador's government began a partnership with USAID

to revamp its tax collection system. Over the ensuing five years, El Salvador was able to successfully reform its tax code, upgrade tax collection capacity, launch new audit systems, and adopt new technology to modernize the tax collection authority.

These reforms enabled the country to increase its revenues by \$350 million per year. More importantly, these increased revenues now fund the country's development. Since the 1990s, El Salvador has doubled per capita spending on health, education, and social protection while reducing extreme poverty by nearly 25 percent.



DOLLARS TO RESULTS

\$5.8 million
in total USAID support

\$350 million
increase in annual revenue

\$160 million
increase in annual social spending



School age girls in El Salvador. © USAID/EL SALVADOR

PARTNERING FOR SUCCESS

To support the effective mobilization of domestic resources, the U.S. Agency for International Development (USAID) works closely with other U.S. Government partners, including the U.S. Department of Treasury, the Millennium Challenge Corporation, and the U.S. Department of State. The International Monetary Fund, the World Bank, the Organization for Economic Co-operation and Development, and many bilateral and multilateral donors are important partners in this effort. Collectively, this international support helps governments and their revenue agencies to expand their tax bases, reduce tax evasion, and tap new and underutilized sources of taxation.

Support continues to grow. In the July 2015 launch of the Addis Tax Initiative (ATI), more than 30 countries and international organizations pledged to significantly increase DRM assistance. The ATI partnership stresses fostering local capacity, domestic governance, and the political will for tax reforms. Through ATI, the U.S. and its partners also pledged to help developing nations improve tax fairness, transparency, and efficiency.



A mother and child with anti-malarial bed net in Tanzania. © MAGGIE HALLAHAN

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The Office of Economic Policy (EP) is located within USAID's Bureau for Economic Growth, Education, and Environment (E3). The EP Office integrates economic analysis and sound economic governance throughout USAID's programmatic interventions.

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