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# GLOBALIZATION, SECURITY AND THE LEGITIMACY OF THE G8

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### The US Perspective on Development

It is a pleasure for me to be here today and to participate in this pre summit conference. I was deeply involved in the Economic Summit process from Rambouillet in 1975 when I was a junior staffer at the Treasury Department until Naples in 1994 when I served as President Clinton's Sherpa for the summit process. Summits have always been a period of intense activity and of course it was fascinating to be on the inside for these leadership meetings. And sitting behind my leader I was able to witness the discussions in a unique way. But I must admit that it is also fun to be on the outside of the process, retired from government service and free to voice my own opinions and critiques.

As all of you know the role of development in the Summit process has changed significantly from the first Rambouillet summit in 1975. This year development will play a key role in the discussions of the G-8 Economic Summit in Germany.

From my personal perspective, I think there have been some very significant changes in the attitudes of some donors and some recipients of foreign assistance over the recent five or so years. Most importantly from a global perspective, the 2002 UN sponsored conference in Monterrey, Mexico was a major breakthrough in the political focus on the development process itself. Imagine my surprise that a UN sponsored event would break ground where years of IMF and World Bank conferences had failed to secure agreement. Both developing nations and developed nations seemed to share a commitment to the concept that there was shared responsibility in the development process. Money alone would not solve the problems facing developing nations!

Another major new development was the creation of the New Partnership for African Development — NEPAD was launched in July, 2001. Its mission is to "establish the necessary conditions which enable the continent to play its rightful role in the global economy and in international negotiations" and to "promote sustainable development at the economic, social and cultural levels as well as the integration of African economies."



*Fauver Associates, LLC.*
*15211 Baughman Drive, Silver Spring, Maryland 20906 PH: 301-598-5787 FAX: 301-598-0209*
*email: robertfauver@worldnet.att.net*

NEPAD falls under the African Union (AU) umbrella of regional organizations and is both a framework and a vision for sustainable development in Africa. Most importantly it is an African group run by Africans. It is a foreign assistance receivers group focusing on how they can better prepare themselves to make maximum use of incoming assistance.

Together these major initiatives point to the need for shared responsibility in the development process. They recognize that it is not the level of resource flow per se that determines the prospects for development but the combination of resource flow and sound growth oriented domestic policies in the recipient countries.

**Changes in US Assistance Approach**

Over the course of the Bush Administration there have been significant changes in the approach to development assistance. Following the Monterrey Conference in 2002, the Administration the Millennium Challenge Corporation (MCC) was established as the United States Government corporation designed to work with some of the poorest countries in the world.

The MCC model was built on the valuable lessons the development community has learned over the past half century. Experience has taught us that assistance is most effective when it reaches partner countries: that practice sound policies supporting good governance, investments in the health and education of their citizens, and economic freedom; that are actively engaging in and pursuing their own development by identifying and implementing strategies for poverty reduction and economic growth; and that demand nothing less than measurable results from the aid they receive.

Therefore, good policy performance, country ownership, and tangible results are fundamental to how the US engages in development at MCC.

What we can do through MCC funding, and what donors can do in full concert with one another, is transformational only when our partner countries put to use what they can do on their own—and for and by themselves—if they invest in building their capacity to deliver on the programs they design. Capacity is fundamental to the ultimate success and sustainability of the programs that assistance funds and, as we all know, to long term development.

For many African nations these obstacles include a lack of infrastructure. This should come as no surprise as a number of regional groups in Africa, including NEPAD and COMESA, have been highlighting the need for increased donor attention to infrastructure development as a means to remove critical constraints to growth.
Since MCC grants are predicated on partnership and not paternalism, we place the onus on the country to come up with their own development strategy, determined through a broadly-based, in-country consultative process. These countries themselves are



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recognizing that addressing infrastructure impediments is the most effective way to stimulate poverty reduction and economic growth. It will improve the climate for domestic entrepreneurs as well as foreign investors to do business.
Consequently, a great extent of the proposals submitted to MCC for funding to date involve infrastructure in some way. Whether it is constructing or improving ports, bridges, roads, water, sanitation, and irrigation systems, MCC-eligible countries are turning to us to fund infrastructure projects.

Of the 9 Compacts signed to date with MCC, four are with the African countries (Benin, Cape Verde, Madagascar, and Ghana). Of the overall 22 currently eligible countries, 12 are in sub-Saharan Africa (Benin, Burkina Faso, Cape Verde, Ghana, Lesotho, Madagascar, Mozambique, Mali, Morocco, Namibia, Senegal, and Tanzania). And the MCC has also signed three Threshold agreements in Africa ( Burkina Faso, Malawi, Tanzania, and Zambia).

It fascinating to note that the US is widely criticized for 'going it alone' and ignoring the UN. But in the field of development, the Administration appears to be in virtually complete compliance with the thrust of the UN Conference at Monterrey.

The basic tenets of the Monterrey Consensus are:

1. Each country is responsible for its own economic development. Each country must devise and implement its own policies, in line with its international obligations, that create the conditions for development and growth.
2. Governments must adopt sound economic policies and create responsive democratic institutions. Good governance, observance of human rights, and a vibrant private sector help create the necessary conditions for economic growth.
3. To achieve sustainable growth, countries must utilize all development resources — including trade, foreign and domestic investment, domestic savings, private donations, and remittances — as well as official assistance.

These are fundamentally reflected in the approach of the Millennium Challenge Corporation.

Another fundamental change in the US Administration's approach to foreign assistance came with this year's budget submission to Congress.

> First, we integrated planning based on the totality of U.S. Government resources and the commitment to a shared goal. For the first time in our nation's history, all $20.3 billion of U.S. foreign assistance under the authority of the Department of State and USAID, as well as resources provided by the Millennium Challenge Corporation, are being applied to the achievement of a single overarching goal-transformational diplomacy.



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Second, we focused on country progress. The ultimate goal of transformational diplomacy is to support recipient country efforts to move from a relationship defined by dependence on traditional foreign assistance to one defined by full sustaining partnership status.

And third, we invested in states critical to long-term regional stability and prosperity.

**Results.**

The fiscal year 2008 foreign assistance request for State and USAID is $20.3 billion and that represents a 12 percent increase over the fiscal year 2006 enacted levels. In particular the budget requests a 20 percent increase in resources for low and lower middle income countries over 2006 levels.

When projected MCC disbursements are included, the FY 2008 request for Africa represents a 54 percent increase over FY 2006. Including actual disbursements and projected FY 2008 disbursements from the MCC, resources for Africa have nearly quadrupled from 2001-2008.

Over 75 percent of the FY 2008 budget will focus on Investing in People in order to address the crippling effects of disease and poverty, a $2 billion increase from FY 2006. These increases are largely due to HIV/AIDS resources, but not entirely. When HIV/AIDS, MCC and the emergency-oriented accounts of P.L. 480 Title II food aid, Migration and Refugee Assistance, and International Disaster and Famine Assistance are excluded in both FY 2006 and FY 2008 (as allocation of emergency funds is often unknown until the end of a fiscal year), there is actually a 15 percent increase in resources to Africa.

I believe this is a noteworthy indicator of dedication to the development of Africa.

**Moving forward.**

It seems to me that focusing on resource flows inevitably leads to accounting gimmicks. I might remind you of how many times Summit members repackage their aid commitments for the current year's Summit Communiqué and try to suggest that this represents new money or commitments when in fact the year before the package had already been announced. I for one do not want to see accounting gimmicks dominate the issue but would rather see a focus on results in terms of measurable development progress.

More importantly, it is critical to remember that official assistance is only a small part of the resource flows going into developing countries. Trade access to markets, private remittances, direct investment, emergency humanitarian relief, and private charitable



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funding are significantly more important in value terms to the overall development process. The US remains the largest donor of official development assistance, the largest donor of emergency humanitarian relief, the largest donor of private charitable funding, and the chief source of private financial flows (imports, direct investment, remittances) to the developing world. But a focus solely on ODA ignores these valuable resource flows.

Trade access remains a major problem for the development process. The Doha Round will provide increased access for developing nations to world markets. And if the agricultural sector is finally liberalized it would be a significant benefit to the developing nations. At present the outlook for completion of the Doha Round is not very bright. All WTO members have a stake in the outcome and all must work harder and more creatively to produce a completed negotiation soon.

I must admit that after 35 years engaged in the international economy I am a little more optimistic about the development prospects for Africa than I have been before. I believe that the focus on capacity building, good governance, and good domestic policies will eventually reform the recipient countries into attractive investment and growth centers. This will produce lasting development and not development constrained by the willingness of donors to increase their contributions.



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