

**CENTER FOR
STRATEGIC AND INTERNATIONAL STUDIES (CSIS)**

SMART POWER SERIES

WELCOME AND INTRODUCTION:

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JOHN HAMRE: Okay. Ladies and gentlemen. Forgive me for interrupting conversations, but we have a relatively tight schedule and we have so many interesting ideas to explore with each other today. And so I wanted to get started.

Thank you all for coming. We're delighted that you're here. And I especially would like to thank Kemal Dervis for taking time out of his calendar to fit us in. He is fitting us in midway between a flight from Arkansas to Mozambique. I don't know how that – I guess we're on the way. I'm not sure about that, but I'm sure delighted that there was a little bit of a rest period and a down time for Kemal to join us.

He's a very familiar figure to Washington, of course, having been at the World Bank and a respected individual in the international community, a leader in the international community here for many years. He knows America very well, having taken his PhD and taught here at Princeton. And I think it's someone who does know America well and genuinely has affection for America that can also speak the truth when we need to hear it. And it's in that capacity that we've come to admire Kemal so much for these recent years.

He is now, of course, at UNDP, and an astoundingly important aspect of the United Nations complex. And the U.N. needed to bring in a deep, respected professional to head up this activity. And they're lucky to have him and we're all, as citizens of the world, we're lucky to have him doing this right now.

Now, let me just say a word before I turn it over to Karen. Why did we ask him to come down and be with us under this Smart Power series? The Smart Power Lecture Series is about how America finds its way back as a wanted international leader. Rather than just kicking our way in through the door because we're so big, we'd like to again be invited in. And how do we do that? In no small measure, it rests with a rediscovering something that's really deep in our fiber, but has somewhat been masked in recent years, especially after 9/11.

We, as a nation, took the lead at one time in establishing international institutions to solve global problems. We kind of fell out of love with those institutions over the last 10 to 15 years. And we found it was a lot easier to pull together a coalition of the willing to go off and do something than it was to work inside an institution, frustrating as that will be. But institutions are the basis under which succeeding generations learn how to start and behave responsibly in the world. You know, coalitions of the willing don't establish the normative pattern for the next problem; institutions do. So part of this smart power program is for us, in Washington, to rediscover the crucial role that the international institutions play in our national interest.

Now, we don't expect that to be the focus of Dr. Dervis' presentation here today. We expect him to be speaking to the importance of the UNDP for the world. But those

Americans here, we need to be listening to this as to why it's in our interest as well, not just for the sake of the U.N. or the sake of the world community. And no one can do that better than Kemal Dervis. So Kemal, thank you for giving us this opportunity. We've been looking forward to this. We're excited to have you. Karen, let me turn it to you to get us started here and I think you –

KAREN VON HIPPEL: Okay.

MR. HAMRE: Do you want to say a few words? And then, we're going to hand it over to Kemal for his presentation.

MS. VON HIPPEL: Sure. Why don't we maybe hear the presentation first? I'm Karen von Hippel. I'm the co-director of the Post-Conflict Reconstruction Project here at CSIS and we're delighted to hear you speak. We'll have to finish exactly at 2:30 so please be considering your questions now and try to be as precise as possible. Please, thank you very much.

KEMAL DERVIS: Alright. Well, thank you very much for the introduction. It's great to be at CSIS. I've been here quite a few times over the last 25 years or so. I did my PhD at Princeton and then taught in Turkey for awhile. And then, I got enough – I was working on general equilibrium models of growth and trade and got an offer from the World Bank to join the research department for a year. And I said, why not? One year at the World Bank should be great. Of course, that year ended up being 21 years. (Laughter.)

And the World Bank is a great institution. It is one of those international institutions that you referred to, which I think has a very critical role to play in international affairs and in developments as does the UNDP, as does the IMF, and so I have been quite part of all of this for most part of my life. I then did go back to Turkey and joined the government during the financial crisis and was the minister, secretary of the treasury there and then joined parliament. And one thing that I always share is that, in a way, moving from the World Bank to the department of the treasury in Turkey, of course it was a big change, but it was still in an organization, in a structured place, when I asked for – and it wasn't really politics. It was trying to take care of the economy. The real change was when I came to parliament in the opposition. That was totally different kind of phase of life.

But anyways, that's not the topic for us here. What I want to share with you really is two or three key points on the development challenge ahead of us and of course international institutions and that challenge. And if that has some relevance to U.S. policy, of course, that will be good. I won't focus specifically on U.S. policy, you know, as head of the United Nations Development Program. It's really not my job, in a sense, to speak to the policies of individual countries. But I would like to share with you where I feel the biggest challenge are and some of the avenue, some of the areas of work and concentration which I think are particularly important in the years ahead. And of course, the U.S. will play a tremendous role.

Before I joined the UNDP, I did write a book at the Center for Global Development called “A Better Globalization.” There is the last chapter in there – there is a section, you know, focusing specifically on the U.S. And for those of you who are interested, it’s one of those books you can download from the website. Not great for authors – (laughter) – modern age, you know? And there is a whole section there really. There is one section on the U.S., one on Europe, specifically focusing on the EU and the U.S.

Now, I think one thing, when you look at development, big picture, is that you have this amazing phenomenon of both tremendous convergence and divergence. Both things are happening. I’m not going to use slides today. It’s going to be more informal, but we should all – I’m sure many of you have seen these figures or these slides – we often forget that what we call development, growth, economic growth, is a relatively modern phenomenon in history. It all started around the 1800s until about 1800, 1820.

Actually, for centuries, the per capita income has been estimated by various economic historians in the world. It was pretty much the same, you know, for 200 years or more. It’s something that one often forgets, that the world was basically not growing economically for centuries and centuries and centuries. And then, with the Industrial Revolution, with the development of that new technology, all of a sudden, growth started the way we know it, the way we think about it, and accelerated in fact over time with a major setback with the first World War, the Depression years, and the Second World War, but roughly speaking, accelerating over time and indeed, still accelerating.

If you take world GDP by adding countries and weighing countries by their own individual GDPs, growth in the beginning of the 21st century is as rapid as it has ever been, in per capita terms, except for some period after the Second World War, you know, the big reconstruction period in Europe, the Marshall Plan, and also the Soviet reconstruction, Japanese reconstruction. That gave a big boost to growth during that period. But apart from that period, growth in the world is as rapid on aggregate as it has ever been.

If you actually weigh countries by their populations rather than by their incomes, it is much more rapid than we’ve ever seen. So in that sense, we are in many ways experiencing the most rapid economic development the world ever experienced. More people are being lifted out of poverty, have been lifted out of poverty in the last two or three decades than ever before by a big margin. If we take the 10 most successful countries among the developing countries and compare them to the 10 richest, most advanced countries in the world, we will see that there was a divergence; the ratio of their per capita incomes was three in 1820 and then it grew. There was an overall divergence in the colonial and imperial period, if you like. The ratio became more like six, seven. However, after the Second World War, that ratio started to decline and is now back at three.

So if you take that particular group of countries, you've had convergence. Okay, you have convergence with a large number of countries and a large number of people. Globalization in that sense is leading to convergence and is leading to narrowing the gap between developing countries and rich countries. And the countries I'm talking about here of course are China, Republic of Korea. India now is growing very rapidly, some countries in Latin America such as Chile, Turkey, and some other countries, you know? These are the kind of fast-growing emerging market economies that are catching up. So in that sense, you could say, well, globalization is working; globalization is actually leading to inclusive growth and to convergence.

However, then if you look at another group of countries, and I'm sure many of you have read the new book by Paul Collier, "The Bottom Billion." He focuses very much on that. Those countries are diverging and continuing to diverge. There is one article by Lant Pritchett, who I think is now teaching at Harvard, who used to be at the World Bank, called "Divergence, Big Time." If you take that ratio, which was also around three, and take it over the last two centuries, it has grown. The gap has grown from three to 50. So while the other countries are catching up and the ratio is back to about three, the poorest countries, the poorest 10 countries, their ratio, the ratio of the rich country per capita incomes to those countries' per capita incomes has moved steadily up, never converging, never a period where they were actually getting closer. And it has reached now really the dramatic ratio of 50, 50 times poorer than the richest countries.

So in that sense, globalization is not working. There's a whole number of countries that are left out and it even seems that globalization is kind of working against them. And I'm going to try to get back to that. And of course, that is a huge challenge to all of us in terms of security, in terms of ethics, in terms of human solidarity, and other things. And of course, you know, I'll get back also to the security aspect of that, which I think is one of the important dimensions.

So of course for economists – and I'm an economist basically, at least still trying to hang in there as a professional economist you know with all the bureaucracy – you know, it's of course the big question. Why is it that a country like the Republic of Korea in a lifetime, in the lifetime of one person, made it from an extremely poor rural economy to an industrial powerhouse and a very prosperous country, within a lifetime?

There was a World Bank mission that went to Korea in the late '50s and came back and wrote a report saying, pretty hopeless. You know, this country is just going to be rural; they have no resources; nothing will happen here for a long time. So we can all be very, very wrong. So what's happening?

From an economics point of view – I won't get into the details or the theoretical aspects but – intuitively, there are kind of two basic models that help us think about them, okay? One model is the kind of neoclassical trade model. It's called the Heckscher-Ohlin model in economic theory where basically, the assumption is that differences in income across countries are explained by capital accumulation, by the amount of capital countries have accumulated.

And if you think of the world as two countries: the rich North, with a lot of capital and little labor, and the poor South, with a lot of labor and a little capital, and then you open that model to trade and to capital flows, what will happen is that capital will flow from North to South, taking advantage of the more plentiful labor and lower costs. Trade will actually accelerate that because trade, in many ways, you know, is an embodied version of capital flows. When you export capital-intensive products, you're actually exporting capital. When you export labor-intensive products, it's as if you were exporting your labor. So trade and factor flows are actually quite similar.

And the broad conclusion of that model is that globalization, in other words, the opening of borders to trade and capital flows, will equalize incomes and will generate convergence. Okay, it may take some time. It may not be perfect and instantaneous, but if you think in those neoclassical terms, globalization leads to convergence. And indeed, many people will ask, why isn't this convergence faster? However, then, looking at China, looking at India, looking at the Republic of Korea, looking at other countries such as Turkey these days, which is a country also growing very rapidly, you can see that convergence taking place.

And you can also see another dimension of neoclassical trade theory which is the factor price equalization theorem, which says that globalization will help the factors that are less available in their respective countries, okay? So in a sense, it will help capital in the North, because it will take advantage of the more plentiful labor that's now entering the world economy. Some people are now thinking of the world economy with another billion people participating, mainly from China and India and the labor force. But it will put downward pressure of the labor in the advanced countries because now they are competing much more immediately with the wages and salaries in the South. And the opposite is also true. It will benefit labor in the South, but will put downward pressure on the returns in the South because now more capital is available to the South as it is coming from the North.

So you have equalization of returns and broad convergence. So why isn't that working for another part of the world? Why isn't that working for the bottom billion or the 50 countries where the bottom billion lives, many of them in Africa, but not at all in Africa: some in Central America, a country like Haiti in the Caribbean, other countries. Some countries like Indonesia, you know, fit that left out category.

And here, you know, there's another model people think of in the backs of their minds. And that's the model – in the first model, the assumption is that technology, the same technology is available everywhere. And by technology, I don't mean just the engineering knowledge; I also mean the broader concept of institutional capability, of the rule of law, of institutions that work. And if you think of technology in those terms, the conclusions that I talked about in the neoclassical model are valid because the same technology is available, you know, in the DRC Congo and in Chicago. It's just a question of taking it there. But, it's nothing impossible to do, whereas, in a model where

you basically have this technology that is not easily transferable, okay? Then, all the conclusions of the model change.

And indeed, if the so-called technologies are far enough apart – in other words, if the institutional quality, the know-how, the rule of law, and of course the engineering technology, you know – all this set of things are so much more developed in the North compared to the South, then irrespective of the amount of capital, excess in the North that would like to go to the South, you know, if it wasn't for that, in fact, it won't happen, because in a sense, all factors are more productive in the North. And if you build a model, you know, in extreme form like that, you actually have the conclusion that the South will empty out. Capital and labor in the South will all want to go North, a very different conclusion from the neoclassical vision where capital flows south.

So I think these models help one to think – like all models, they're extremes; they're oversimplified; reality is much more complex; there's no such thing as the North and the South. Obviously, it's much more complex. But they help us think, I think, about some of these big issues. And I think they help us stress, and they've helped that with the experience we've had in the past in terms of decades of economic growth. They show that quality of institutions, know-how, rule of law, governance – these are key factors in development that are actually more important than the sheer amount of capital.

We've had many countries that actually have made tremendous efforts at capital accumulation only to end nowhere. In fact, the Soviet Union was one example of that. The Soviet Union invested 45 percent of its GDP for decades. I remember when I was at Princeton in the library reading an article by Samuelson, saying, you know, at the end of the day, we all have to get ready in the U.S. The Soviets are going to overtake us because we're only investing 20 percent of our income and they're investing 45 percent. So if you project that forward for decades, there is that kind of inevitability of Soviet income surpassing American income.

And I, you know, puzzled over that and wondered whether it was correct or not. And it was quite a challenge, you know, because if you like democracy, then you think people should be free to save and invest the way they wish and the state shouldn't be doing anything. On the other hand, for somebody coming from a poor country, you know, a statement by an economist saying that, you know, if you don't invest, and if the state doesn't force you to invest, you'll be left behind, was quite the challenge.

Well, the fact is, of course, it didn't happen. And I think the fact that it didn't happen has to do with this essential importance of institutions, of allocation, of efficiency, and not just the amount of resources that you spend. Now, having said that, looking ahead and looking at this development challenge and looking at what we're all trying to do, I'm not trying to say that resources are not important. Some resources obviously are important. Again, these are not – I don't want to make extreme statements. But it is quite clear from all of the theory as well as the experience we have over decades that if these resources are not combined with economic and governance reforms, with

policies which allow these resources to be used well, if these institutions are not built in a sustainable way, then resources alone won't do the trick.

That is true for oil money. There are many oil-rich countries that we've seen that, you know, basically have wasted a lot of their oil money. It's also true for foreign aid. And of course, I am all in favor of foreign aid. I think there is need for more development assistance, need for more assistance to the poorest countries. However, I also, I think, believe and understand that that amount of aid by itself is not enough. The real question is, how is it going to be used? And that's what, in a sense, in many ways, UNDP is all about. Because we are not an organization that has lots of money to distribute; donors give us some money, but it's basically for capacity building, institution building, technical assistance. It's not like the World Bank or the IMF for actual large, financial support.

The objective is, try to help countries build these institutions, build these capabilities. I think the same is true these days now for most of the bilateral aid. I mean, increasingly, bilateral donors have also realized that it's the capacity-building, institution building that is so important. And I would say, in terms of U.S. aid programs and you know, U.S. approach to the developing countries, augmenting that aid – and the U.S. as you know is of course in percentage terms quite a bit lower than quite a few other countries, rich countries – augmenting both the amount, somewhat, but also even more important, focusing on the quality of that aid and how to make it work on what I call technology. But I don't mean by technology just engineering technology. I mean the whole human institutional setup that leads to development.

And that's tough. That's very, very tough. It's much easier to go and build a road or a port or a factory than it is to help countries build stronger institutions that are sustainable. It's much easier to just make a balance of payments support loan than to really worry about these institutional development features. So now, let me say a few words in that context.

First, this institution building has to be taking place with a domestic and national dynamic. It really is not something you can import from abroad. Countries are too different – geography, history, culture, specific circumstances, politics – are too different for institutions just to be transplanted. And I think therefore the country-driven nature of development strategies, the variety, the diversity that's there and the need to adapt to that diversity I think is very, very important.

My colleague and countryman, Dani Rodrik, actually has often, you know, kind of written these days about development as self-discovery. And I think what he means there, very rightly, is that each country has to kind of chart its path. And recipes that kind of fall from outside really don't work. That doesn't mean, of course, that sharing experiences and trying to adapt these experiences to local circumstances is not useful. And here, I do believe, yes, comparative analysis, analyzing other countries' successes and failures, deriving lessons from there are adapting them to your own domestic circumstances is a lot of what we can help countries do because we have the global

network; we have the knowledge; we have staff that work in Peru, then from Peru go to Indonesia, then from Indonesia, go to Senegal. You know, that is invaluable in terms of bringing that experience. But it has to be in that spirit of working with local, national dynamics and certainly not believing that you can just take one model and transplant it somewhere else. I think this is one thing I would like to say, which is very, very important.

Second, and it's a dilemma often, is the issue of, in particularly the poorest countries, making sure that it's the domestic institutions that increasingly deliver the development services, whether it's procurement, whether it's planning processes, budgeting processes. There's always temptation for us at UNDP as well as for the World Bank and bilateral donors to kind of go there and do it ourselves. And sometimes it's necessary. You know, when there's an earthquake and everything is destroyed, Pakistan two years ago, one has to rush in, humanitarian organizations, whatever, distribute the food, set up the tents, you know, whatever. You can't wait for the domestic. I mean, there are moments when immediate action is necessary, particularly in immediate post-crisis situations.

But as you get out of the immediate post-crisis mode, I think it is important to have the focus and the will to work with the domestic institutions. And sometimes, things go a little more slowly. But I think, you know, it's worth showing that patience if you want to have longer term results. It's a debate that took place particularly two or three years ago in Afghanistan, where, you know, such a large international donor community is active, so many outside organizations are active. And at the same time, Afghanistan is trying to build, you know, rebuild itself as a state, rebuild its own national institutions with very limited resources.

You have the usual challenges of Afghan citizens working for the U.N. or the World Bank or USAID or, you know, Swedish development, maybe making five or 10 times more salary than those who work for their own government. The result is, very often, nobody is left in the government with any real skills. And President Karzai, you know, complained about that to the donor community two years ago at the London donors meeting. So I think it is very, very important to focus on these domestic capacities. It's difficult, takes time, one has to deal with the whole transparency issue. UNDP faces that choice quite dramatically at times.

You know, we have two modes of executing projects. One is, we do it ourselves and we use our own procurement methods and hopefully, those are tight and we have a good supervision of what's going on. When it's national execution, it's the national authorities who do it. And of course, we try to help them and I'm sure they try to do it as best they can. But, you know, there are some real weaknesses at times in some of the poorest countries in particular. So I think this focus on building institutions rather than trying to do it yourself I think is very important and showing the patience for that including, and I really want to underline that, dealing with the salary challenge.

I visited some countries in Africa where very high level civil servants get a salary of \$50 or \$60 a month. And you know, in today's world, of much more communication and borders – I'm going to come to borders later, but – where, you know, skilled people have opportunities abroad, if you want to build national capacity and national governance, you have to face the fact that you have to pay civil servants a decent wage.

I mean, it cannot be, in a poor country, a very high wage, but it has to be enough to allow them a decent life and to allow them to take care of their families, take care of the education needs of their kids, and so on. And so, that element one cannot forget. And I don't think the donor community is doing enough on this. Still, there's more emphasis on hardware and not enough – or just on foreign technical assistance, you know, foreign technicians flying in and flying out rather than really trying to build the national capacity of the poorest countries including supporting salary structures which allow governments to function. That's the second point I'd like to make.

Connected to that point, by the way, there is also the issue, and I'll come back to that, of nationals who have migrated and trying to bring them back. That sometimes can be a very effective way of getting skills, but skills that are connected to the country culturally to be more productive in their own country. And we ourselves at UNDP are working on various schemes of that sort. Last week, we actually launched a new partnership for democratic governance with quite a few countries including the United States. Secretary Condoleezza Rice was in New York and we did it together with the OECD, which is exactly focusing on providing skilled inputs into governance and into capacity of states to regulate and to distribute public services.

And during my presentation, I gave the example of Japan who, Japan was a country – and I didn't know about this actually; I found out rather recently, but in the 19th century, Japan invited foreign experts, but with a condition; they had to stay 10 to 15 years, none of that two week, you know, mission, which I'm about to do for Mozambique. (Laughter.) You know, you really have to go and kind of almost live there and almost become Japanese. But of course, it was already a strong state and lots of skills were actually formed in that period. It was entirely a nationally driven program; Japan was not abdicating its governance and leadership responsibility to foreigners, but it was bringing the foreigners in and asking them to stay.

My own country, Turkey, in the '30s did something somewhat similar and invited a lot of experts, particularly people who unfortunately were beginning to be persecuted in Europe in Nazi Germany, particularly, to Turkey and give very important jobs to them. The founder of – particularly also in academia, the founder of Istanbul University Economics department was a German professor, Professor Nermac (ph), who did a fantastic job in launching the whole kind of modern economics faculty in Istanbul. So there are examples of that. But I think, again, it's important to do it in the spirit of national capacity building and not letting, you know, not the foreigners doing the work, but it's really the outside skill helping the national capacity.

Now, the fourth point I would like to make in that context, which is quite important, is how we handle migration. And here, I think a lot of work is needed. It's an extremely important feature of globalization. It's of course a huge debate now in the States. I realize that. I haven't followed all the details in Congress, all the bills and things of that sort, but I find that, you know, capital flows and financial flows have been analyzed in great depth. And there are millions of articles and hundreds, thousands of books on it.

Migration is a little bit less analyzed and yet it is so important because, at the end of the day, at the center of national capacity are people. We say "institutions," but, you know, what is an institution? And institution is some way that teams work together in a legitimate and sustainable way that kind of reproduces itself so that if one person disappears, you know, the thing still functions. And so, it's bringing people together, bringing teams together. And here, to analyze how we do this in conjunction with international migration, I think is a very interesting topic.

I have a very personal – I mean this is not UNDP policy, you know, UNDP official proposal or something, but I believe we must look at migration in a much more cooperative way, not each country looking at it purely from its own point of view, but really looking at the global economy, global needs, and then look at migration regulation, migration legislation, in that context. And one has to be creative. And of course, one has to distinguish between skilled, unskilled; there are many, many different variations of it.

But let's take the very tough issue of nurses. We know that in Africa, there are some countries where 70 percent of the nurses leave after they acquire their skills. We know that in the U.S., certainly from my own experience in hospitals, I mean, we have a lot of African and Asian and Latin American doctors and nurses helping us here in the U.S. In fact, I think what we need, we desperately, the U.S. – and the same is true for Europe – needs them. But how should one think about it? How should one handle this?

Should a country invest heavily in skilled labor and then see that skilled labor emigrate? Who captures, then, the returns of that investment? Anyways, there is, of course, an economic literature on this, but I think it needs to be deepened. And one has to be creative. And it may be worth considering. For example, it may be worth considering a system where certain categories of skilled labor are invited by the academic system as they are in the U.S., and even then, can spend some time. But then, maybe some deal whereby that skilled labor is asked to return home, but not forever, maybe for five years or eight years. And then, if that skilled labor has done the work for five or eight years at home, maybe that's the best time to say, okay, now you get your final immigration status, green card you call it in the U.S. or in Europe.

Because you see, when families want to immigrate, it's very hard. I mean, they really want to do this and I think it's part of globalization that it happens. And indeed, the skills are needed. And yet, they are also needed at home. Purely temporary worker permits are also maybe a useful element. But I believe, a kind of long-term promise actually, for some categories, is more realistic and might actually meet both the needs in

the advanced countries for these skills and at the same time make sure that these skills are available at least for a period in the sending country. Maybe everybody could be better off: the sending country, the receiving country, and the migrants themselves, if one could build an international system around such creative migration schemes. So migration, I think, is something that we need to look at very carefully in the context of the institution-building development policies and development assistance that need to be pursued.

Now, finally, before ending my remarks and leaving time for questions. These days, I think one cannot and one should not leave aside the issue of climate, environment and climate change. I must say, I must confess that five years ago, it was not much in my mind, quite honestly. I looked at some of my environmentalist friends as good, moral, ethical people, but somewhat in a corner, in a niche, worrying a little bit too excessively about these environmental issues. Many of us coming from developing countries tend to say, oh, environment's a little bit of rich man's or a rich woman's luxury. I mean, we first have to grow. And you know, I remember in Turkey, when I was growing up, the symbol for development were factories with chimneys with, you know, polluting, polluting stuff coming out of the chimney. But that was a good thing because you were industrializing.

Now, I think we know much more now. And we know that the environmental challenge is very serious in terms of the quality of life, in terms of the pollution in many of the emerging market and developing countries, but now we've added another further, major dimension to this which is climate change. And we know that heat-trapping gases are truly accumulating, are truly changing the climate, and are posing problems which 10, 15 years or even five years ago, many of us didn't really think about.

The science, I think, has become quite overwhelming in the sense of saying yes, there is global warming and yes, it is due to human activity. I don't think that the science is very clear in the exact way this will all play out. I think there is lots of uncertainty still in terms of what exactly will happen and how fast and what the feedback effects and all of that. So I don't want to sound as if, you know, everything was crystal clear, and that we knew what was going to happen 30, 50, 60 years from now.

There's also a lot of discussion and uncertainty relating of course to technology. Some technologies may become available that we don't even know about right now. However, there is climate change and there are clear long-term dangers for everyone, including the rich countries, dangers which we don't fully understand yet, but they are there. And so, if the world just was one big country of similar people, I would say, I would look at climate change policy as basically an insurance challenge.

There is a danger out there; we don't quite know what it's going to be, but it's kind of serious, in the long term, for your children and grandchildren. It makes sense to take out an insurance to insure yourself against that even if you don't know for sure. And I think if one looks at it from an insurance point of view, then proactive mitigation policies and climate change policies make sense for the world as a whole and for the rich countries themselves.

But apart from that, there is a very different dimension to climate change and that is the immediate impact it is now having – already, today, as we speak – on the poorest countries. I've seen slides – again, you can see these slides these days – where for example, the effects of climate change are geographically analyzed for the next 20, 30 years. And it's quite clear and very sad that the negative impact on agriculture – Bill Klein has just come out with a book, "Climate Change and Agriculture," and you know, weather events, extreme weather events, storms, floodings.

The negative impact of climate change is going to be concentrated in the lower latitudes, exactly where today, unfortunately, the poorest people are living, much of it in Africa, some of it in Bangladesh, parts of Asia, Caribbean, Pacific Islands. And, you know, to use the Bottom Billion kind of slogan, it's those same bottom billion, roughly, that are going to face the impact of climate change. So in fact, climate change is coming and becoming another factor of divergence. The very people who are already not able to participate in globalization are going to be those, and are already those to some degree, but it's going to accelerate who are going to face tremendous climate change challenges.

I think that's the way to think about it. You know, for you and me, if we live in Washington or New York or London even or certainly Moscow, it's a long-term problem; maybe something really bad will happen; we're not 100 percent sure; let's take out some modest insurance against it. But if you bring in the development challenge, the bottom billion, the poorest people in the world, it's a very, very immediate development problem.

And therefore, thinking about it, you know, a kind of pure economist or looking at it from a pure economic point of view, one would say, okay, we therefore have to mobilize resources for these climate-affected countries, on top of all the other resources that are being allocated – and they're not enough – to fight against poverty and to include them in the world economy. And in a sense, an additional transfer is now needed to take care of this over the next two decades. And I think that is largely correct.

But sometimes, the danger in economics, for those of you, who know, who've done economics courses, I mean first-best policies always you assume that the right transfer mechanisms and distributional mechanisms will take place. So if you follow that kind of model, you would do modest mitigation because it's such a long-term problem. But for, you know, for citizens of Chicago and New York or even Ankara in Turkey or Frankfurt in Germany, okay, take some insurance. And then you mobilize some resources and use these resources to help the poorest countries who are going to be the most affected by that.

But in fact, mobilizing these resources and transferring is very difficult. We already have tremendous difficulties, you know, mobilizing the \$100 billion of ODA a year that's taking place now. And just pre-climate change related development goals estimates told us that we need at least \$50 billion more a year, even without taking into

account climate change. And now, if we take into account the adaptation needs of climate change, we have another perhaps \$30, 40, 50 billion needed for adaptation.

So I think we're facing a huge problem of how the world is going to get organized. And it's a big problem, I think, for U.S. policy also to deal with this. And at the same time, I think we have to be very clear that if there's a major disaster somewhere, a big flood in Bangladesh where 20, 30 million people are, I think, going to be very vulnerable to this, and the world hasn't done anything to help, this is going to be a huge ethical problem, but also a political problem.

Because, you see, we now know that the heat-trapping gases that we emit are partly responsible for those events. It's one thing is you don't know or haven't focused on it. Then, a flood is a flood and you know, you rush in humanitarian help and maybe the story ends there. But I think at this point, we know. And humanity and the world is waiting to, for the international community to get organized, to deal with it and deal with it, as I said, by a combination of mitigation policies and adaptation policies because if you don't mitigate, then the adaptation costs, and the costs that will hit the poor countries, are going to be very, very large.

It'd like to kind of end on that note, adding the kind of climate dimension to the human-capital-migration-institution dimension we're dealing with. And concluding by saying that I think, if you think of all of these problems, and there are others. I mean, I haven't gone too much into the health and disease area, but that of course is another major area. And there is the more political issues of nuclear proliferation control, you know, terrorism, fighting against terrorism, and things like that. But all these things, I think, demand very strong forms of international cooperation, whether it's dealing with migration, whether it's climate change.

We need the international cooperative mechanisms to address these issues; in technical language, which we have these global goods and global bads, and countries just asking by themselves will never be able to come up with the desirable and optimal arrangements. So, there is need for cooperation and therefore the challenge is how do we act individually as countries or as organization but how do we also build the cooperative framework, the new forms of international cooperation to make it happen.

It's interesting, I think, you know we're in Washington now; the IMF is getting a new chief, Dominique Strauss-Kahn, he just two days ago wrote, was interviewed by *Le Monde*. I think he's very gung-ho, very enthusiastic and has all kinds of proposals already on how to change governance and things of that sort. Bob Zoellick is the new president of the World Bank. We have a new secretary general at the U.N., right six months ago. I think all these institutions really have to get together and have to think through how to build, with the support of the member countries of course, the efficient mechanisms of cooperation with resource allocation that deal with these global public goods.

On the U.S., it is a lead actor, of course, while it does not provide as much for an assistance as other countries – as many other countries such as Germany, France, U.K., as a percent of GDP, but in total of course it does provide the largest amount of foreign assistance in the world. On top of the official assistance, there is a lot of philanthropy now; philanthropy is really emerging as a major, very significant source of funds which needs to be added to the ODA kind of figures, although still, ODA is of course the largest figure, but I think philanthropy is growing.

And yet, if everybody does it in a totally decentralized way, if everybody does it without thinking, the overall strategy, without trying to fight against duplication, and without, again, coming back to the beginning of my talk realizing that resources are great but if they don't come together with good policies and strong institutions, you know, they can also be wasted.

So this is a time, I think, to think about all these things, to discuss; I don't think there's a magic bullet, but I think we can do much better than we've done in the past because we've learned a lot, and in terms of the old, tough ideological distinctions, they're not there anymore either. You know, in the old days you either were a believer in free markets or in central planning and the two kind of things just clashed and that's now gone. Most people believe in markets, but they also believe that markets need some direction and some regulation to work.

So I think the ideological atmosphere is conducive to greater cooperation. I think it's time to look into these things, both from a bureaucratic leadership point of view, but also from a conceptual point of view. And since I'm here in the Smart Power Program, I would say that I think all of us who are interested in development really look forward to the U.S. taking a very, very strong role as it did when the United Nations were founded, as it did with the creation of the Bretton Woods institutions, you know, in a strong U.S. kind of role, a leadership role in building these new structures of cooperation that focus on these issues, and building them in a way that they last and they don't just are something you do for a moment and then go on to something else, that you really do build lasting structures that can work in the long run.

Thanks a lot.

(Applause.)

MS. VON HIPPEL: We have about 40 minutes for questions and I guess I'd like to abuse my position here on the chair really to start it out.

I'd like to press you, I mean you raised a number of really fascinating challenges that the U.N. faces and you do have a lot on your plate, obviously, but I'd like to press you a bit further on two aspects. I mean, I guess that there is a perception that the U.N. is a slow-to-adapt institution and now there is, you talked a lot about globalization and how do we spread the impact of globalization to reach the world's poor? There's a new emphasis, of course, on user-driven innovation in many parts of the world and whether or

not you have access to the internet and to these new web 2.0 tools or a cell phone, there's certainly a lot of amazing things that are going on in many parts of the world.

So, I'd like to really push you a bit more to see what UNDP plans on, how do you plan on harnessing these new innovation tools to spread the benefits of globalization further, on the one hand? And the second point really relates to your focus on migration and you really talked a lot about the domestic institutions being very, very critical. Can you tell us a bit more, too, about how UNDP plans on harnessing the massive amount of money that comes in through remittances to a number of these countries, to you know, the collective impact of remittances is quite extraordinary, 50 to 100 billion a year; we don't really know, obviously, the figures so well. So maybe you could talk a bit more about your plans at UNDP to really try to work with alternative funding streams.

MR. DERVIS: All right, thanks.

MS. VON HIPPEL: Two small questions.

MR. DERVIS: On the innovation, lots of things are happening.

There was a fascinating article some weeks ago – in I think it was The New York Times, I'm not sure, it might have been in The Washington Post – about how fishermen in East Africa use their cell phones to create a much more competitive fish market because in the old days without the cell phones, you know, you wouldn't know how much fish was being caught two, three hours down south on the coast. And therefore, some fish got wasted in one location where there was enough fish in the other. And with cell phones now, there's a whole, you know these fisherman, most of them probably are still illiterate and know very little, but they have learned how to use their cell phone to call each other and figure out what's happening with the fish, and I thought it was a wonderful example of how, in a sense, some of the new technology allows you to leap from development stages in the past.

Another area which is quite well known is in the health sector; how global information sharing and advice is now available very quickly to practitioners, to doctors, even in the least developed countries. We are of course supporting that whenever we can. We have cooperative ventures, we raise money for these things; we always have to be very careful, you know, a big challenge for public institution when it works with private products and companies, is always you cannot be in a position where you give advantage to one private product over another, because that as, you know, all kinds of issues associated with it.

But we are, for example, you know we're not involved in development, but when the \$100 laptop, you know, will actually be mainstreamed, we certainly want to make sure that people can take the most advantage of it; same goes for the cell phone technology, which is kind of competing a little bit with the \$100 laptop. But there are other organizations, like UNESCO for example or UNICEF on the education side in the U.N. family that have even more specific purposes on these knowledge products.

In terms of the remittances, you're absolutely right; I mean, remittances are now about, certainly as important as official development aid. They're of course used in a different way, and there are two big issues here. I think one is the cost – bringing down the cost of transferring money; it's amazingly high. I mean, I've forgotten, I don't have with me the exact number, but I think it's like, you know, sometimes people who transfer \$200 have to pay \$30 transfer fees, you know?

There are also security issues involved, you know money that finances illegal activities, drugs, terrorism and all that. So, making it very easy is sometimes subject also to the need for international security. But certainly, ability to transfer money without high costs is a great help and helping the banking system do that, I think, is one of the activities various U.N. organizations involve, not so much UNDP as others.

The other thing, of course, is the whole inclusive finance and microfinance because a system where remittances just come, you know, by wire transfer and then somebody takes cash and stashes it under their mattress is one system; a system where actually remittances allow small savers to open bank accounts, savings accounts, and develop the whole grassroots savings account system and banking system is much more useful. The percentage of people in poor countries who actually have bank accounts is still very, very small, sometimes as little as 15% of the population. And so, developing, using the banking system much better because then these savings can then translate into micro-investments, job creations, microfinance schemes and so on.

And here, UNDP is actually quite active, particularly via the U.N. CDF, which is a kind of part of UNDP, United Nations Capital Development Fund which specializes on issues of local finance, inclusive finance, and microfinance in the poorest countries.

MS. VON HIPPEL: Okay, great, well I'm sure we have a number of questions. Can you please make sure you introduce yourself and the institution you come from? Yes please?

Oh, we need the microphones up here, yeah, right in the front. And I'll try to get as many as I can, maybe we'll take about two or three and then you can answer them –

MR. DERVIS: Yeah, okay, that would be better, I think.

Q: Hi, thank you for an extremely fascinating presentation. My name is Mindy Reiser, I'm with the United Nations Association here of the National Capital Area. You're a former educator, and indeed in your various positions, one might say you've continually been an educator.

I want specifically to focus on human capital development and the role of education institutions across the world. We know in some countries, in some regions, the education systems, especially at the higher education level, are not what they once were. We know that UNESCO has education as its brief, but we also know the needs are very

high, so I'm wondering in terms of your convening power and your focus on collaboration, what you can do to encourage a consortia of universities to work on development issues, how you can mobilize the U.N. University. It seems to me that's an area in terms of development and higher education that a lot more could be done.

MS. VON HIPPEL: Okay, thank you. Who was – yeah – I'm sorry, I'll move to the back next, so, right up here in the front row. Sorry, right up here in the front row, thank you.

Q: Hello, thank you very much for your presentation as well.

MS. VON HIPPEL: Can you introduce yourself?

Q: Sure, my name is Jahidi Gomani (ph), I'm an intern in UNDP-USA, and as a native of the Dominican Republic, I was always wondering about the future of Haiti, which you mentioned.

And, my question is like, how can globalization help and contribute to this country and whose responsibility is it to help? Is it the United States? Is it the neighboring country of the Dominican Republic, which is also a developing country, or is it all the countries in the Latin American and Caribbean region? What would you think about this?

MS. VON HIPPEL: Okay, and then the gentlemen with the glasses? Yeah.

Q: Thank you. My name is Rainer Pauschal (ph), I'm from the Netherlands embassy. Thank you for your most inspiring words.

You mentioned at the end of your speech the need for new structures of cooperation. Two years ago, we had the Paris declaration on aid effectiveness, in which the OECD deck countries promised to harmonize their efforts in development cooperation. How do you see this Paris declaration in this new structure of cooperation?

And the second question, how do you think the U.N. itself can improve the harmonization within its own agencies?

MS. VON HIPPEL: Okay, do you want to take these three, or – okay.

MR. DERVIS: On the last one, I could give – I would, you know, be able to talk for two-three hours on U.N. reform, which is one of our big challenges.

But let me first say a few words on education. In the whole analysis of, you know, what makes a difference, there is no question that, again and again, studies of human capital and of indication have shown that that is one of the absolute leading factors of why one country does better than another. In many ways, the Asian, East Asian, countries had one advantage over others, that their basic education systems were

quite good. So that's why the Republic of Korea, in the '50s, had little industry and a very low-productivity economy; you know, primary basic education was there. And that is very important.

There was – one of the big issues, of course, is the balance within the education system. And here, I would say that on the whole, while of course primary education and literacy remains absolutely critical, and unless that's taken care of, I think, not much happens. There is now an increasing stress also on tertiary education and university because in today's technology world, you know, that university sector must be emphasized also within the developing country education systems.

Now here, of course, the private sector has started to play a very, very important role. So it's not just a question of public sector, but private sector. And there are quite a few countries which have harnessed private-sector initiatives and resources in the tertiary sector, but have combined, of course, with very important grants, education grants, given to poor families.

So I think this combination, for the university sector, of bringing in private capital and private initiative but accompanying it with generous help for poor students, poor family students, I think is very essential because otherwise, it becomes an elitist sector; it becomes another source of social injustice and inability. And indeed, it's not very efficient because in terms of innate capacity, kids from poorer families have as much as rich kids and therefore, if you don't give them access, you actually are not using your potential sufficiently. So from a rational, strategy point of view, that's where I would come out.

From an international, cooperative kind of arrangement now, of course the sky is the limit. I mean soon, I'm sure, people will hear lectures from a professor in Delhi while they sit in New Haven or in Los Angeles, you know, and vice versa. So I think the new technology allows an integration and a sharing of skills and experience and of teaching capacities which is, I think, only beginning to be exploited. I know UNESCO is doing quite a bit of work. We're not really involved at UNDP in that sector.

Focusing on Haiti itself, it's a sad story in a way. A country with tremendous culture and history and beauty and, you know, wonderful people, has suffered so much, and also environmentally; one of the huge problems in Haiti is the environmental deforestation that has taken place. I do believe, however, that the most recent news are encouraging; that institutions are beginning to function again. And I think that once the security situation and, you know, law and order situation has improved significantly, which it is beginning to improve, Haiti is in a part of the world where it can connect. It can connect to the rest of the Caribbean; it has, of course, many Haitians in the U.S., I understand; there's a tremendous scope for remittances. But one has to somehow jumpstart the process of growth.

You know, again, it's one of those problems in many post-conflict countries that become very dependent on foreign aid and foreign presence, is how to do you move from

that to a self-sustained kind of growth. We had it in the Balkans; we still have it in places like Kosovo and Bosnia, which for years now have had a structure where the foreign presence is kind of – most people work in that sector, and how to shift that to self-propelled growth is, of course, not easy at all. But it's one island, so I guess Dominican Republic and Haiti together should be able to do many joint ventures, many joint tourism ventures, joint cultural things, and even joint industry.

Now, the Paris declaration and U.N. cooperation itself: I must admit, you know, as head of UNDP my other kind of hat and job is to try to chair the group of development institutions in the U.N. My colleagues are smiling; I say trying to chair because it has all kinds of challenges. One of them is geography because, you know, from Nairobi to Bangkok, I mean, we have offices all over the place. But, and maybe I didn't emphasize enough in my talk also in terms of the quality of aid, really the challenge, as the gentlemen from the Netherlands embassy has stressed, that harmonization and cooperation presents us.

We have a multitude of donor organizations, obviously. We have a multitude of bilateral organizations. And yet, when you visit particularly some of the smaller countries, you know, many ministers, many counterparts have told me, even when I was at the World Bank, I don't – they say, you know, we don't know what to do. Because this week, we have basically five days, five different missions: one from the World Bank on Monday, then comes UNDP on Tuesday; then as, you know, DFID and the Swedes are coming on Wednesday, and they all want to talk – and, you know, the level of skill counterpart is thin in many countries.

So they all want to talk to the minister, to the director-general, to, you know. And they spend like 80 percent of their time dealing with these foreign missions. I mean, it's not a joke; it's really true. And it is a real problem, and therefore greater coordination, greater cohesion in doing this, and division of labor between the agencies is absolutely – agencies and bilaterals is extremely important.

And yet, and yet of course, you know, each one has their legitimacy. I mean, one particular European country, I mean, Netherlands is big in that sense because is providing a lot of money. But, you know, there are even very small ones that will not give up their kind of desire to be present as a bilateral agency. The taxpayers of, you know, nowadays of the Czech Republic, let's say; the Czech Republic is becoming a donor, you know, following the European commitment. Well, they want Czech activities, and I think that's understandable.

And the same goes within the U.N. family. You know, the worst thing that happens if you forget to CC somebody on your email, you know, you immediately have reactions. So we do have this challenge, of how to kind of organize this whole system in a much more effective way. I think we made some progress. Donors have gotten organized under the Paris declaration; some procedures have been harmonized. Some donors are saying okay, we're going to concentrate on this country; you concentrate on the other. Some donors are concentrating on sectors and others on other sectors. So there

has been some progress, but it is very, very difficult and sometimes extremely frustrating, to be honest.

But when I get really frustrated, which happens, unfortunately, sometimes, I remember my days when I actually represented Turkey in the convention for the future of Europe, and the European parliamentary, you know, group that tried to formulate the so-called new European constitution, which was an exciting task. But, you know, at that time Europe was just still 15 and heading towards 25 and 27. And it's so difficult, even within the European context. You know, when you now have 27 members, somehow get it organized, you know. And then when you think of the U.N. with 192 members, you kind of take a deep breath and it's a long-term project, you know. And yet it's important; yet it's important.

I'd share with you one experience I had in the European parliament. I was walking around, and I actually heard the criticism in New York also coming from some people, you know. And you have all these translators, and you look at the translation budget, and it's huge; I mean, in the European commission in Brussels, in the European parliament. The other thing is that people actually, many people speak very good English, okay. But when they take the microphone, you know, it's whatever national language their country's coming from, and then you have all these translators madly translating all these national languages. Of course, you know, it's not easy and it costs money and all that kind of thing.

But you know, so one day I was walking in the corridors of the European parliament kind of saying, I mean, it's a lot of waste here, you know. And then, however, I thought well, think about it: Europe was tearing itself apart. Tens of millions of people killed; huge armament expenditures. I mean, you know, if bringing people together means you have to translate and pay some translators and a little bit of waste and a little bit of excess space, so that everybody can kind of interact, that's a small price to pay to avoid war and avoid, you know, conflict.

So I think one has to also look at it from that point of view. A little bit of inefficiency and, you know, a little bit of high-cost activities, but with the overall result that people talk to each other, work together, try to work out their differences, try to work out compromises, not a bad investment, I think, overall.

MS. VON HIPPEL: Okay, well let's take some questions from the back of the room, maybe. Oh – Johanna, over there.

Q: Thank you. Johanna Mendelson Forman at CSIS. And I'd like to talk to you about Haiti, but on a separate dialogue because I don't share your view. I work for the UN-MINUSTAH, and it's an issue.

But I really want to bring up your point about climate change because certainly, it's a major issue for UNDP. But one thing that I thought you might link, and may want to discuss, is the connection between migration and climate because environmental

migrants have become, perhaps, one of the key problems not only in Sub-Saharan Africa but around the world. And with sea level rising, it's become a major issue; and it's certainly one of the great issues with north-south immigration policies, and I was wondering how you thought UNDP and its sister agencies might be able to address something that has its roots in development as far as mitigation is concerned. Thank you.

MS. VON HIPPEL: More from the back of the room. Over there, the military fellow?

Q: Hi, I'm Dan Murphy, a military fellow here at CSIS.

I really liked your comment about it's easier to build a road than set up institutions. And it kind of got me thinking about some models for foreign aid in terms of a country like China that's seemingly very willing to build a road or a power plant, but very unwilling to get their hands dirty in the internal politics or building liberal institutions. So I was just wondering what UNDP's role is in that, and how you see the possibility to encourage them to be a little more forward-thinking in that regard.

MS. VON HIPPEL: Okay. And someone here wanted – gentleman here, please.

Q: Ed Burger, the Eurasian Medical Education Program.

I was going to – wanted to address the issue of conditionalities, which accompany much foreign assistance. And I'll offer two anecdotes which perhaps illustrate the point. One was a meeting several months ago, of a number of high-level people, on the subject of health, in New York. And the very stately minister of health from Kenya stood up; the president of the World Bank was on the stage at that point.

And she said, let me tell you about the problem of conditionalities. One of the conditions, in our case, is that we're supposed to try to reduce public expenditures. We produce a lot of nurses, but we can't hire them. And so we're exporting them to your country. And the other is that, in practice, patients who come into the hospital have to pay the bill before they leave the hospital. In practice, what that has meant is that women come in to deliver, and pass their babies out the windows to their husbands, and then are captive in the hospital until they can pay the bill.

The other anecdote had to do with conversation on the subject of Mongolia not too long ago. And whence the Mongolian spokesman said, one of the advantages of taking money from China, at this point, is that there are no conditionalities. And of course, that's not unrelated to the very large amount of trade between China and Mongolia. And, I think, it perhaps speaks to your point on relying heavily upon the indigenous country to be involved in how the money's used. I'd love to have your thoughts on how that balance should be looked upon.

MR. DERVIS: On the environmental migration issue, I think it really is going to be really a very serious issue. I mean, some environmental migration is going to be

unavoidable. Past climate change and greenhouse gas emissions have created a situation where, no matter what we do, even if we take drastic mitigation measures, there will be, in the next 15-20 years, some island states and some other parts of the world that will face very severe damage, and some sea-level rise. And we're already committed to a certain amount of sea-level rise, we don't know maybe whether it's going to be 20 centimeters, or 30 or 40, but some of it is definitely going to affect some communities.

And, you know, in some extreme cases I think there will be no other choice but to accommodate some migrants either internally, within their own countries, or internationally. But I do believe, politically, this whole issue of environmental migration, of course, is a powerful topic because migration, you know, as I mentioned, is such an important phenomenon in modern times, and has always been, I mean, in the past also. In the 19th century, after all, we also had massive migration.

And yet, in terms of accommodation, in terms of social systems, part of the situation in the past, of course, is because social welfare systems were not developed, you know, and migrants came. But it didn't pose the same political problems of insiders-outsiders; that the insiders that are benefiting from an education system, health system, and whatever, even if they'd been migrants 10 years ago themselves, you know, are always looking at new migrants as a potential threat to certain benefits. So there's always going to be that tension, and therefore interaction between social welfare policies and social security policies, and migration is going to be very much on the agenda.

I think, as I said, the whole migration issue and climate change issue is going to build a very strong case for both mitigation and for a need to help the adaptation process, and as I said I don't think one can put the whole weight on adaptation because those transfers simply won't become feasible. And therefore, some mitigation may be necessary even purely from a development point of view, even if we disregard the long-term risks to the advanced countries themselves.

The issue of – I mean, the two last – for the questions were actually to some degree related. And you'll understand it, as a UNDP official. I mean, I'm not going to make value judgments on one country or another, but the issue of conditionality of aid is, has been tremendously tricky and tremendously debated. And the way I come out on it is, again, to say that if conditionality is imposing some outside values or experiences or institutions on countries without adapting them or without making a very serious effort to adapt them to local circumstances and history, it really doesn't work, even with the best of intentions.

I mean sometimes, the intentions may not even be that good, you know. But even with the best of intentions, it backfires. There is need for what we call national ownership. There is need for countries to feel that they are the ones developing their policies and their institutions. And in that sense, the kind of conditionality which disregards that and conditionality in its pure form, I don't think works.

On the other hand, transferring resources into any kind of environment clearly also doesn't work. So there is need for responsible foreign aid policies to take into account the environment, the institutions, the policies, where the monies are deployed. I mean, in the extreme case of massive corruption, for example, which has been the case in some of the past, it is quite possible for foreign aid to be given to a country just to immediately travel out again without absolutely no effect on the development of the country. And we've had examples of that.

So engaging the country and discussing strategies with the country and asking the country to explain how things will work I think is valid. And then, to really, to really be aware that circumstances are very different, that what may be a good thing like making sure that a mother pays the hospital before she leaves, in certain circumstances may not work and may actually create strange effects if one doesn't have a payment plan that is more appropriate to that particular situation.

I also, in my own life, have experienced situations where very well-meaning foreign advice that came, even when I was in the government in Turkey, really missed some of the key facts, you know? And it takes a long time to kind of find the right way to explain these facts. So it is the interaction between the national capacity and national capability and the foreign advice and the resources. And I think it's in that interaction that the best results come forward. And you know, it's not something, there's no recipe. I can't be much more precise than that.

But if the national capacity isn't there, then whatever you do, you end up making a mistake. If you impose conditionality, it doesn't work, but if you don't impose it, it also doesn't work. So I think the focus on building the national capacity is very important.

Now, it took the rich country donors, the traditional donors, a very long time to get to the Paris Declaration, to start, you know, providing foreign aid that really focuses on institution-building and so on. So I do believe in it as a general statement that it will be good if all donors joined these mechanisms of cooperation because there are lots of lessons that have been learned, lots of lessons that can be shared. And in that sense, the new emerging donors, I mean we hope that they will become part of all of these cooperative mechanisms.

On the other hand, we also shouldn't be too surprised that they will take some time, that it took, you know, it took the European countries or the U.S. a very long time to get to the point where we are today. And even now, there's still a lot of tied aid and things which are not really what they should be. So, the bottom line is, I do believe that the emerging market countries – such as China and India and Mexico, Brazil, Turkey, Republic of Korea. These are emerging donors – join the effort, that's basically a good thing.

It will take some time to then also get them to join the harmonization effort. And finally, let me say one thing. We've learned in the past – and some of these effectiveness

studies of aid have kind of not focused on that point I think. If you focus your foreign assistance on purely political objectives, or military objectives, you may achieve your political or military objectives, but that's very, very different from focusing foreign assistance on development.

And during the Cold War, I think what happened is that both sides, the priority was the politics and the geo-strategy. And the priority was to make sure that a particular country didn't fall into the zone of influence of the opposing power. So a lot of the foreign assistance that was deployed during the Cold War had very kind of strategic, political objectives and development was not really the major objective. So then, to analyze the effectiveness of development aid, when in fact it wasn't development aid, you know, is kind of not very valid.

I know that one American president used – I mean, I'm not going to use the sentence, but I think it's a famous sentence. He's a very bad guy. I know, but he's our guy so, you know, why don't we continue supporting him. Of course, the Soviets did the same with their allies very often, you know. In that kind of atmosphere, obviously if you're going to measure the effectiveness of development resources, you're not going to get very good results. So in the whole business of evaluating development efforts, I think one has to be, one has to make provision for that and take into account.

One also, for example, shouldn't analyze the development impact of disaster relief because obviously, disaster relief goes to mitigate the disaster, not to create development. It's a little bit like looking at the health performance of people who take strong antibiotics and those who don't, and then finding that, in fact, those who don't do better. So antibiotics are not useful. I'm exaggerating a little bit, but the point is, somebody takes a strong medicine when they're sick. And if you're not sick, you don't need it, but you can't conclude from there that medicine isn't useful. And some of the empirical analyses, the early empirical analyses of aid, stressing that it wasn't effective actually sometimes made those mistakes.

So I think with that, we have to close because I have to catch a flight to Mozambique tonight. I look forward to that.

MS. VON HIPPEL: Thank you very much. I promised Dr. Dervis that he would get his flight out of here. So just on behalf of Dr. Hamre and the Smart Power Project, I'd like to thank you for a really fascinating discussion and answering the questions. So thank you very much.

DR. DERVIS: Thank you very much. (Applause.)

(END)