



Transcript New York Democracy Forum Presents: Kemal Dervis

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Carl Gershman: John Whitehead when he was the Deputy Secretary of State, it noted that he had surprised many of the Foreign Service officers for his straight talk and his crisp decisions. And this has characterized John throughout his career, but of course I know him as a terrific democrat, who has always stood for democratic values, in Poland during the time that he was Deputy Secretary of State and really throughout the world and this gives me a great pleasure to introduce John Whitehead

John Whitehead: Thank you very much, Carl. It was mostly correct, what you said, but when you said a “democrat” you didn’t say a small ‘d’ democrat. I am still a republican even though I am not always in agreement with my party’s policies. I am here tonight to introduce Kemal Dervis. He is the head of the United Nations Development Programme, the UNDP, certainly one of the most important parts of the UN and one probably more respected than any part of the United Nations. It does wonderful work. He is also chair of the United Nations Development Group, which is a committee that consists of the heads of all the UN funds and programs and departments that work on development issues. There are a great many parts of the UN and many of them have development programs of one sort or another and Kemal has been put in, sort of in charge of trying to coordinate all of those to make sure that they don’t overlap and to make sure that they each have the amount of funds that they need to do their job. He was recently appointed as a member of the high level panel on UN System-Wide Coherence in the areas of development, humanitarian assistance, and the environment. Prior to his appointment to the UNDP, Mr. Dervis was a member of the Turkish parliament, representing Istanbul from 2002-2005. During this time he represented the Turkish Parliament in the constitutional convention on the future of Europe. From 2001-2002 Kemal was Minister for Economic Affairs and the Treasury in Turkey. So there he was responsible for Turkey’s recovery program after the devastating financial crisis that hit the country in 2001. The country has come back very strongly from that period and is now a very prosperous part of the world. From 1977-2001, he held various positions in the World Bank, including Vice President for the Middle East and North Africa region and Vice President for Poverty Reduction and Economic Management. Mr. Dervis has been an active participant in various European international networks and taskforces including the Global Progressive Forum, and the Progressive Government Network. He earned his

Bachelor's and Master's Degree in Economics from the London School of Economics and his Ph. D from Princeton, where he wrote his thesis on computable general equilibrium growth models. That's a very complicated title, which I can hardly say. He has taught at the Middle East Technical University and Bilkent and Princeton Universities and has published many articles in the fields of international trade, economic development, and international affairs. His latest publication is "A Better Globalization: Legitimacy, Governance, and Reform," published by Brookings Press last year for the Center for Global Development. It is my great pleasure to introduce to you Kemal Dervis, who will speak to us now, and then we'll be willing to take some questions and answers after he is through speaking.

Kemal Dervis: Thank you very much John and Carl for having me, and thank you dear guests for joining us this evening. I was just chatting with Carl and John before the lecture and I said, "You know, as an economist I grudgingly have to admit that politics is really important for development." And it is true that when one looks at so many countries, including my own, economic policy can do a lot of important things and it is clearly very crucial, but if one gets the politics wrong, if the politics derail, as we saw for example in Ex-Yugoslavia, then even quite decent economic policies cannot really yield the results expected. So the interaction between economics and politics is crucial for development and is crucial of course to the United Nations, to what we do at the United Nations, and therefore what I will try to do tonight is to try and give you an overview from my own perspective, towards the end adding some personal anecdotes and experiences, but in the beginning, trying to share with you where I think thinking on this issue is at, the literature, the analysis, the empirical studies. What do we know and what don't we know, and then as I said, I'll go to some more personal aspects of it. Before I start, I do want to say, however, that the United Nations Development Programme is deeply involved in issues of governance, more from an economic and social side than from a purely political side of course, it is the political part of the Department for Political Affairs that deals with the purely political aspects, but we on the Development side deal with the implementation of governance issues, elections and many other aspects of democratic governance, and indeed right now, democratic governance is the biggest part, supporting democratic governments, has become the most important part of our program, I would say about 40-45 percent of the resources of UNDP are allocated to activities that support democratic governance. A statistic that we often quote these days is that on average, once every two weeks, the UNDP, in cooperation with the DPA, is involved in supporting an election somewhere around the world. Now in terms of looking at the literature, which I'm sure many, many of you know better than I do, particularly the political scientists, there is a vast literature on the relationship between democracy and development. It starts perhaps with modernisation, theory, Lipzic and you know the thesis that as countries grow richer, as citizens are more prosperous, they demand more freedom, they demand more democracy, so the kind of causality running from development economic growth to democracy indicators, I think with time and this was done of course in the late 50s and early 60s when many many countries were still colonies and therefore the set of countries that one could analyze at that time was rather restricted. I think that there still remains some validity in that causality, and in other

words, that it is easier to sustain democratic institutions and to have well-functioning democratic institutions at the level of development that is somewhat higher. It is harder in extreme poverty and extreme underdeveloped situations, however, the last few decades have shown us that there is no tight relationship; you can have poor countries that have gone quite far in democracy and democratic participation, and you have countries with higher income levels that are way behind on that. So the association is not as strong as perhaps, the early proponents of modernisation theory would have it. There is a study also that shows that what matters is not just income level, but its also how well you are doing relative to your existing level of income, in other words: countries that are growing, where prosperity is increasing, are able to develop democratic freedoms more easily than countries who may be richer but where the actual prosperity levels are going down, so it's the rate of change that matters as well as the actual level.

There has been a lot of interest, of course, in the other direction of causality, not from economic development to democracy, but the other way around, from political institution freedoms, democratic participation to development. The big question being, does development actually help, sorry, does democracy actually help development? You know on that, the early thoughts and the early literature was of course rather negative and rather pessimistic, I think Professor Bhagwati gave a lecture to this group, or to a related group rather recently, where he reminded us of what he calls the "cruel dilemma," the way it was perceived in the 50s and 60s, where a predominant view among economists was that to get growth you needed to have a high investment rate, and in order to extract that investment rate from societies that are quite poor, authoritarian regimes which forced societies to save and to invest did better than democracies where it was much more difficult to mobilize those investment funds. There was a time when one of the key textbooks in economics, Paul Samuelson's textbook, kind of said, you know without quite saying it in a clear way, implied that probably the Soviet Union would overtake the US in terms of economic welfare and prosperity. Why? Because the Soviet system extracted a huge surplus from its population, forced the populations to save, and invested a lot of funds; the investment rate in the Soviet system was between 40 and 45 percent for decades, and the US invested between 20 and 25 percent over that period. So if you make a mechanical computation with fixed productivity growth assumptions, you end up with the societies that invest a lot growing much faster, history has shown that what is not only as important, but perhaps even more important than the investment rate per se is the efficiency with which these resources are utilized, and the total factored productivity growth driven by innovation and entrepreneurial activity and therefore those models of growth that overemphasized the sheer quantity of investments ended up being very misleading, and we've had authoritarian systems, ending up growing very little, or apparently growing, but when one looked at the actual quality of the output produced, of course it fell very much short, and that is the history in a way of the world economy over the last few decades, we've seen very centralized and authoritarian systems, not do very well at all, and much more decentralized, democratic systems do much better. So the cruel dilemma of the 1950s and 1960s, thankfully, wasn't a real dilemma, and the early theories that linked authoritarian regimes to higher growth rates actually fell apart.

Having said that, unfortunately, for democrats, I should say, it is also not quite true to say that there is a very clear empirical association leading from democratic institutions and freedoms to better economic performance, it's not as simple. You do have quite a few examples of countries that fairly, you know, decent democratic institutions not doing so well, at least with apparent democratic institutions not doing so well, and you do have some authoritarian regimes that actually are doing quite well in development axis, so if one is intellectually honest and looks at the evidence, one has to be more careful in making such statements. What does turn out to be true, in terms of the evidence we have, is that there is a positive association that runs from democratic institutions, democratic development to good governance, and then from good governance to better economic performance and economic growth. What is critical in that link is that we need democratic institutions and I'm not talking purely from an economic point of view, there are other considerations, but from an economic development point of view, it is very very important that the type of democracy we have, that the type of democratic participation we develop, leads to good governance, leads to the rule of law, leads to predictability in economic policies, leads to a business environment where entrepreneurs, domestic or foreign can invest with some confidence that the rules won't change over night, of course the need for security, physical security, in a country, all these things are very very important for economic development, and for democracies to foster development, and successfully be associated with good economic performance it has to be the kind of democracy that develops that type of governance, and that is not automatic. You can widen democratic freedoms, have elections, have competitive parties and all that, and not necessarily have the good governance that's needed for good economic performance, that is what the data show, and I think there is a lot of literature now going more deeply into these issues.

A few more points on the literature, one I mention that is important, is that transition economies, particularly of course transitions from extremely centralized and authoritarian political and economic systems. When you go from such a system to more democracy and greater decentralization, that transition is very complicated and very difficult to manage as we saw in Eastern Europe and the Ex-Soviet Union Space, and there are very important sequencing issues there that one has to be careful about. One particular problem when you have a system that is deeply flawed and that has tremendous obstacles to development and to efficiency built into it is that reform is often very costly in the beginning. Reform is an investment into the future, but like all investments, it costs you at the beginning, or you can liken it sometimes to surgery. You know, you are chronically ill, you have a real problem, you have to have surgery, when you do have the surgery, you actually, in the beginning feel worse, obviously, or immediately after the surgery, you know very often feel worse, and then the improvements come over time. Of course if you then take, you know, the patient to a democratic election right the day after surgery, or before surgery, you are not likely to get a very good result, so part of the problem of moving, reforming systems both in the political and economic sphere, is this timing issues. And there is no obvious answer to that, but one has to keep that in mind when one evaluates the development of various systems.

Another point that comes out of the literature is the importance of history and of geography. There was a recent article by a person in **Tabellini** who provides some very good evidence from the past, that two strong explanatory variables in terms of how a country does in terms of democratic development, and the persistence of democratic freedoms is how much democracy it had in the past, how much experience of democracy it has and second in what kind of neighbourhood it is. Both factors are strong explanatory variables, if a country has had the experience of democracy before, it tends to do much better, you know, even though there may have been a dictatorship in the meantime, when the democracy comes back its much more, its quicker to adapt to it, it is quicker to be successful than countries that didn't have that experience in the past, and the same goes for neighbourhoods. There are neighbourhood effects, that if you kind of are in a "good neighbourhood quote" from a democratic point of view, its easier also for you to implement democratic reforms, and to develop democratic freedoms more deeply.

I think these are the key facts that come out of the empirical literature and the theoretic al literature very quickly, it is a very complex and rich literature, but I thought it was worth highlighting these. Now having said that, I would like to add two important caveats, two important qualifiers. First, of course economic development is not the only reason why we want to have democracy. Democracy is a good in itself, its something positive in itself, in the UNDP literature we call it "human empowerment." It is something valued and valuable apart from income growth, you know in analyzing the links between democracy and economic development, one should never forget that human empowerment is a source of happiness and well being in itself, even if it isn't associated with higher income levels. There are many many studies that show how important these human empowerment variables are, some of you may have seen the World Bank sponsored study, "Voices of the Poor" by Deepa Narayan, how important it is for example, in the lives of poor people, that they can trust the police, that they can actually go to the police station and get some help when they have a problem, instead of being afraid of the police, just to give you one example. So I don't want to sound narrowly economic, when I evaluate the role of democracy in development. That is the first po int, the second point and that is a problem for empirical studies of course, is that one has to be careful when generalizing from history. A lot of the studies deal with the last few decades, some of them actually go back to the mid nineteenth century, go back 150 years and analysts organize panel data, time series, cross section data, and try to find these associations, but I do believe that there is actually, you know history moves on, and what was valid fifty years ago, even empirically valid, may be quite different today. The world changes, perceptions change, what is acceptable in a particular part of history is no longer acceptable today, what works at a particular time in history may no long work today, and I think we really have to take all of these historical studies with a grain of salt because we live today in the year 2006, and we look forward to 2010, 2015, and you know the world five years from now is a very different world from 1980 or 1950, we have to remember that because it is inherent in these empirical studies that they are backward looking rather than forward looking.

Of course, my own country Turkey is, perhaps, worth thinking about in this context. How each historical period has its own logic and its own context. Turkey in the 1930s

was a country led by an authoritarian leader, who is much loved in Turkey still today, founder of the Turkish Republic. In the 1930s, it was not a multi-party democracy, but when you compare Turkey 1930s to Europe 1930s, actually Turkey was miles ahead of most European countries in terms of the rule of law, the role of parliament, the security of individual people and things of that sort. When you compare it to Italy at that time, Germany, most of Eastern Europe, Spain, Greece, that was Europe in the 1930s. Okay there was France, there was the UK, there were some Nordic countries, but that Europe was a very different Europe, and on many indicators, Turkey was ahead. So when you then compare that to the 1980s, it's a very different story. So, what I'm trying to say is that each period has its own logic, its own context, and when one analyzes things, one has to analyze within that context.

Two more points, one is the issue of markets and governments in this whole debate. It's a big topic and I'm not going to get into details, but when you look at the development of western democracy, we really realize that the development of competitive markets went hand in hand with the development of strong democratic institutions. In the words of McRobbie or also Polanyi, markets were embedded in human and political institutions. They were not functioning without these political institutions and sometimes, particularly economists, and particularly free market, extreme free market economists, sometimes forget that: that every successful free market system has been embedded in good governance. When you look at the developing countries, you often miss that. You have markets that are developing actually a lot of wealth in the private sector, and you have very weak governments. I was talking to our representative in Kabul the other day and I was asking how much does a middle to high level civil servant earned in the Afghan government now, somebody who has to either manage the provision of health services or security, although the security people are getting a little bit more, or a tax inspector. Its fifty dollars a month, and the same goes in many African countries. How much does a Director General earn? Hundred dollars, eighty dollars a month. And this is in a world, where in the same countries, actually not so much in Afghanistan because of the safety problem, the private sector actually makes considerably higher incomes, and its very very hard to build up a civil administration in these countries without dealing with this capacity problem of the public administration of the civil service. And one of the consequences of that, of course, is corruption, non transparent practices, which are one of the major obstacles preventing good economic performance, but I'd go further than that. It's what my friend, what's his name, calls, "illicit," the takeover of large parts of society by illegal, extralegal mechanisms: drug cartels, drug pushers, arms salesmen, and general criminal activity. You have parts of cities, parts of countries unfortunately taken over by these extralegal networks. Its one of the real real difficult problems we have to face in talking about the development of democracy and of good governance. We do need, besides markets, which of course we need good markets, private sector and all that, we have to remind ourselves that we need strong governments, strong public administrations with decent salaries that can actually provide judicial and legislative and governing framework for the working of decentralized markets in the private sector, and I think too often we don't give enough stress to that, so one of the key objectives and missions of UNDP is to try to help in that, to try to help build the capacity of good governance, and also we have to face the fact that very often donors are willing to pay for flying in

consultants from abroad who rightly are paid good salaries, they live in rich countries, that is where their living is, and get paid rich country salaries for their good work in a developing country, but then they leave. Whereas the real need, very often, is to somehow increase those salaries that I mentioned a while ago, that are ridiculously low and which don't allow the capacity creation we need in many of these countries. And this whole fight against illegality is a very very serious issue that perhaps we are addressing enough. I firmly believe many groups that appear as terrorist groups, or appear political, very often what is driving them is drug money or other illicit activities, and the political clothing is really only a part of it, the real driving force is often the criminal activities behind it.

Last point on this whole debate is something that I think is particularly important to share with an American audience, and that is that in today's interdependent world, one cannot really be a democrat, in my view, and deeply believe in democratic values, and be a proponent of democracy, and try to develop democracy unless one also thinks about the global aspects of democracy. In my recent book, I have a little quote that says, I can't remember the exact quote now "democracy has been left at the national border, standing there without a passport." What is meant by that quote is that so many issues in today's world are cross-boundary issues, whether its disease, whether its security, environmental issues. The world has to cooperate on global issues in many many dimensions in many questions, and so when we argue for the development of democracy within the boundaries of a nation state, the underlying value system that makes us argue for democracy is the respect of human rights and the equality of human beings. Basically you can argue about the exact logistics of the system, electoral system, the bottom line is" if you don't have a one man, one woman, one vote system, you can weight the votes, you can have upper chambers and senates and all that, but the bottom line is that each human being is equal and has a vote, and that is after all one of the absolute key aspects of democracy. If you think of it in that way, then it is very odd, that in the Security Council of the United Nations, for example, the institution which has the greatest amount of power in the United Nations, India with its 1+ billion people, 1.1 billion I think almost right now, and moreover which is a democracy so it also has the legitimacy of itself being a democracy, that India is not sitting in the Security Council. What I want to say by that is that you can't really hope for strong progress of democratic principles and values and commitments throughout the world if one isn't at the same time willing to re-design, a little bit, re-equilibrate, re-order the governance of the international system so that within the international institutions, the UN, the World Bank, the IMF, the developing countries, particularly, the countries with large populations who have a large stake in the international system, don't increase their weight and their say. I think that this is a very important aspect of the whole debate on democracy which we should not forget. How to do it of course can be debated. There is a very interesting dilemma between countries as actors in the international system, individual countries, you know the one country one vote kind of thing which of course reflects the fact that sovereign nations are still the building blocks of the international system, and therefore one has to give each sovereign nation, even though it may be very very small a say, a place, a certain ability to express its views. At the same time, presumably one has to take into account the size of nations what they contribute to global public good, to international system, whether it is terms of

peacekeepers, whether its in terms of money for development for disease control. All of these things need to be weighed, but it is clear to me that we cannot live with the system designed in 1945 in 2006, and that is why I think the Secretary General's Reform Proposals are so important in terms of the Security Council, and other aspects. We are making some progress, the peace building commission that was agreed on in largess, in a way, it is an advisory, it does not have executive powers like the Security Council, nonetheless. it enlarges the membership in an important way, brining in more actors, and I think that the recent proposals by the Managing Director of the International Monetary Fund, Rodrigo de Rato, to change the weights by which the countries are represented on the Board of the International Monetary Fund are another step in the right direction, but it takes a long time, its very hard and unfortunately, I think it goes much too slowly given the pressing challenges we have.

Finally, two points from more personal experience that I think are relevant to this debate. One is and in a way it comes back to governance, is the tension that exists in all systems between the need to pre-commit political actors to certain types of economic policies and the requirements of representative democracies. I'll explain what I mean. In a way it has to do with the division of powers between the Executive, Legislative and the Judiciary but it goes beyond that. For example, when I was in Turkey as Minister of Economic Affairs, I introduced a new law in Parliament, giving much greater degree, in fact European style-autonomy, independence, to the Central Bank. There were many colleagues of mine in Parliament who said, "What do you mean, independence of the Central Bank? Are they not part of the Republic of Turkey? Should they not do what we tell them to do? We, elected representatives of the people of Turkey? Are you a democrat or what? Are you some kind of secret technocrat sent by international institutes sent to infiltrate the Turkish democracy?" You know, I can see the point. Sometimes, when you listen to the way the IMF speaks, you say wait a minute, these technocratic institutions, be it the Competition Board, being the Bank Supervision System, being the Central Bank, they should be part of the democracy. They cannot just hang out there on their own with technocratic powers bestowed upon them by some law or extra-democratic mechanism. There is obviously the need to have an overall system of democracy where these so-called independent economic agencies and regulatory bodies are accountable, and are a part of the democracy. At the same time, as we all know, looking at the developed countries in Europe and the US and Japan and so on. Over time, all these democracies have evolved economic systems, economic governance systems where some semi-technical institutions have a great deal of autonomy. The Federal Reserve, once the Board is appointed, once the Head is appointed, is very autonomous from congress and from the presidency. Banking supervision in all developed countries have a high degree of autonomy and indeed the terms of these regulators are much longer, very often, than the terms of the congress members or even the president's who appoint them. So there is need for a very interesting equilibrium between regulatory agencies and democratically elected bodies. Now, why do we need these regulatory agencies? Because we need an economic policy, we need pre-commitment capacity, we need a degree of stability in the overall framework of monetary policy, of exchange rate policy, of banking rules which are not subject to sudden changes, sudden changes that

maybe politics could trigger. Of course, over time politics can change these institutions, including the personnel, including their heads, but it should take time. So this particular balance between autonomy and democracy is a very delicate thing which I believe, particularly when we work with much poorer countries, we have to be very careful about. We have to avoid two dangers: one danger is to have democratic competition take over all these bodies and basically not have the ability to have a gradual, careful, economic framework that allows pre-commitment. On the other hand, I do believe also we have to be careful not to adopt too technocratic an approach where central banks are just doing their thing, following certain rules, without really being accountable to the democratic institutions of the country. How to define that balance in what type of country? How does it relate to the particular constitution? The level of development of the country? These are things that I hope the UNDP will work on very very carefully.

The final point, people ask me very often, what's the best piece of advice you got when you were asked to go and become the Economic Affairs Minister in Turkey, at the peak of a very very tough crisis, and you know I did call my friends, I didn't have that kind of experience. I was an academic economist, I had World Bank experience, but I had never had the political responsibilities that I had for that period in Turkey, so I called many friends and asked for advice. And I got quite a lot of advice from various friends I had, but the best piece of advice, and one that is relevant to this whole debate about democracy was from the Mexican Central Bank Governor, Guillermo Ortiz, who had been Minister of Economic Affairs and Finance in Mexico during the Mexican Tequila Crisis in 1994-1995, and I said, "Guillermo, tell me in one sentence, I have to leave tomorrow, but in one sentence what is your advice, what lesson do you want to share with me?" And he said, "Kemal, if you don't spend more time in Turkey explaining what you're trying to do as an Economics Minister than actually sitting in your office working, then you'll definitely fail." And I took this advice; I tried to take this advice to heart and tried to put it in practice, although it was quite difficult because the time pressures are terrible. It is very very important for economic policymakers particularly when it relates to the whole issue of autonomy, central bank issues, and so on, to really share with civil society, with people, as much as possible, why policy is what it is, and when conducting it, to be very transparent about it, to take the time to sit down with civil society, to sit down with the major actors and really try to go through the various pros and cons of what you're doing. It's not easy. Sometime it gets misinterpreted. I remember one meeting, one dinner I had with the worker's unions, you know we considered all possibilities. One was to default, do an Argentina, although Argentina hadn't happened yet, and maybe default on the debt, but this wasn't good for Turkey, it would lead to greater costs and bigger burdens on working people, and there were others, and then we decided to do that. Of course then the next day there was a headline, "Dervis Considering Defaulting on Debt," so this transparency and this dialogue with civil society is not an easy thing, but I think one really has to do it, and it helps tremendously in the sustainability of economic policies.

And finally, let me read to you a few sentences from an Israeli novelist xxx some of you may know, who, I just read his little book the other day, and he says the following, I'd like to share this message with an American, a mostly American audience. He says, "I

wish the present American administration, perhaps the present generation of Americans altogether, had more carefully studied their own history. I regard the Marshall Plan not only as the single most generous move in history, single most generous policy in history, but also the best investment anyone has ever made throughout history. It was the Marshall Plan that won the Cold War, not Ray Guns and Star Wars, but the Marshall Plan. I think communism was defeated through the Marshall plan, though its overthrow took thirty or forty more years to realize. It was Harry Truman not Ronald Reagan who won the war with the Marshall Plan. But what was the essence of the Marshall Plan? It meant that America helped to reconstruct civil society and a ruined society by preventing poverty and despair.” Maybe this is a little bit exaggerated, but I do believe that particularly in these days, when there is so much debate about the role of foreign aid and how you can really help and how you can help the development process and support economic development and also democratic development, that there are examples in history where through very peaceful means, through economic means, societies were helped tremendously from the outside, so I think that can happen. Much of development has to come from the inside, but outside help can work. We have more recent example of European Union help in the Mediterranean area and Eastern Europe working quite well in countries like Spain or Ireland or Hungary. So, while in the end development is domestically driven, it will not happen if domestic dynamism isn't there, if domestic leadership is not there, but I think outside help, particularly as xxx says, “focused on civil society, focused on the whole development of society as a whole can be tremendously helpful.” I have been in situations where I saw how much money can be spent on purely military activity, for example in the Balkans, billions and tens of billions. And then when it comes to the economic side, to the social side, it's very hard sometimes to find fifty million dollars, and I think that is really wrong. There is a great unbalance here, and if one could focus more resources, of course in an intelligent, balanced way, and not in a mechanical way, on working with forces of reform and forces of economic progress and political progress, I think one could achieve a lot more and then the need to spend money on security issues becomes much less. Thank you very much

CG: That was really a magnificent *tour de resende*, So many issues were covered, I could have listened forever. We have some time for questions. I'm going to ask, if you ask a question, try to make it crisp and short and identify yourself. Please over there in the back. We have mics on both sides and I think we have a floating mic for people in the middle.

Question 1: Mr. Dervis, I am wondering about your views about the relationship between religion and economic development, because as we see the example in the United States, like almost in Islamophobia is developing. We saw it in the port deal, the Dubai port deal, in the United States, as well as in your country, in the last developments, the killing of a judge because of headscarf issue, all of a sudden diminished the foreign investment in the country, the trust, the credibility, the economic stability. So I am wondering what you think as the head of the UNDP, the relationship between religion and economic development? Thank you.

CG: All right, well Carl, you said you had this great *tour de resende*, but you see a topic that was not touched on at all. It is of course a huge topic, and again a huge literature, a huge debate, and you know anything to do with religions becomes quite personal also. But I think first of all when one looks at historical evidence one sees regimes, quite religious regimes, being very repressive and totalitarian, and one sees regimes which are led by people who are deeply religious who are very democratic, and one sees the opposite. Nazi Germany was not at all a religious state, if anything anti-religious, and at the same time deeply totalitarian. So I don't think there is a very easy story in history, and when one looks at different religions one has the same story. I certainly don't believe that there is one religion that is more likely to be conducive to deeper democracy and democratic development than another. You look at history and you can see over the last ten, fifteen centuries examples of deep repression in all kinds of religious settings, in Christian countries, in Muslim countries. You can see on the other hand Muslim countries with a level of tolerance and openness that was much greater at the time than what existed in Christian countries, for example. But I do, I do of course believe that what we've learned through so many centuries, I think, is that the practice of religious should be a very personal affair, should be free of course in all its manifestations and in all its dimensions, but should not be mixed up with politics as such. It is my personal strong conviction that unless you have secularism defined in that way as a separation between church and state, or mosque and state, or a synagogue and state, you are likely to run into deep problems in the democracy field. So I think it is one thing to be religious and to practice and of course everyone should be able to do that in the fullest form, but I do believe that for democracy there is a need to carefully observe that separation.

CG: One in the center here, can we get a mic in to the center? Is it possible? If you could come down with it maybe or... Let me also suggest for people who want to ask questions, why don't you, it is probably simpler to line up for the mics on the side.

Question 2: I think I'm going to try it without it

CG: Well you've got a mic

Question 2: Okay, thank you. I just wanted to ask, you mention at the beginning of the talk, linkages between economic development and, say, democracy, economic development and governance. I'm wondering about the cultural dimension. Is there anything to the idea that there is a cultural dependence on the readiness and maturity for democracy. I think for example of Cambodia at the beginning when the UN was helping it set up its transition to democracy. I think of Russia who which seems to have kind of reverted back to a sort of totalitarian state because at least according to some, the people are not used to democracy and what it really entails. I guess my question is, is the cultural aspects something the UNDP wires into its programs? Is it something it considers? And how so?

KD: Well, I think I did mention, there is evidence from previous studies that the experience of democracy or forms of democratic participation in the past is a relevant predictor of how well a country will do in the democratic area now. So there is that kind

of, some degree of dependence on history, which is important. I am sure many of you have read Amartya Sen's wonderful little book called *The Argumentative Indian*, where he shows very interestingly, how India really has a long tradition maybe not of democracy as we define it today or as the India defines it today, but of free argument, participation, and a great deal of tolerance. There is a little chapter in *The Argumentative Indian* by Amartya Sen where he tells the story of the Muslim Emperor, Mogul Akhbar, who brought together all protagonists, including non-believers, other religions Hindus, Christians, Jews, Muslims, always at his court and always endlessly argued with them and had them argue things among them. For example, this Muslim ruler actually was extremely secular and kept saying, religious systems are one thing, our state is another thing and it cannot depend on any particular religious system. So, Amartya shows there that India has the advantage over others perhaps of having this long tradition, and therefore it may not be surprising that India is doing so well on the democratic front, so in that sense there are links between on would call 'culture', but not in the Huntingtonian sense that somehow some religions, religious cultures are somehow inherently more democratic than others.

Question 3: Some critics say that institutions like the UN and the IMF fail the developing world because they seek to impose solutions that draw from the top down instead of adapting to the really life and culture from the developing world from the bottom up. What do you have to say in regards to that?

KD: All these tough questions. Well, I do think that progress has two driving forces. It has to be domestic, it has to be bottom up, and in that sense anything that is totally imposed from above cannot work. But, on the other hand, I don't think that I would go as far as to say that there is no role for leadership in history. I think at times, usually it is at times when conditions are ripe, but nonetheless particular leaders can play a critical role in societies, and therefore in those moments there is also some top down development, if you'd like, and one shouldn't completely neglect that either. I think when it comes to outside institutions, your point is even more valid. That no outside institutions should feel that it can somehow impose development or teach development without deep partnerships and very well developed partnerships with these societies. However, I would like to add that ideally, whether it is the United Nations, or even the International Monetary Fund shouldn't be looked by countries as outside institutions. After all, these are institutions that are owned by member countries and this brings me to my global governance point, that are all owned by the member countries. I think that this is particularly true for the un, and I think that this is a beautiful and very valuable part of the un that actually most countries think and believe that the un is *their* organization, including in Africa, Asia, Latin America. In fact that is one great advantage of the un. So its not that the UN is an outsider coming in but that the United Nations, if you'd like, is the organized international community working together to share experience, resources, insight and to help one another. That I think is the right way to look at it. the same should be true of the Bretton Woods Institution and the financial institutions, in a way they are financial cooperatives that should be there to help those who need help at the particular moment, but for that to work and this is what I tried to say: the governance of these institutions must reflect the cooperative international spirit, it cannot be a

governance where the G-7 or the G-1, as one country is called, simply runs them. It has to be, of course the G-1 will have a certain weight which nobody can dispute and a certain importance, but it has to be done in that cooperative community spirit. If one succeeds in doing that, then I think the advice coming from the international institutions, and the help that can be made available will be much more acceptable and much more legitimate and therefore that interaction between national reform and international advice and support can be much more productive.

CG: Is there another question over there? Please.

Question 4: Hi. I was wondering, what do you see as the specific challenges faced by post-conflict societies like Liberia in terms of developing good democratic governance, given the fact that you have a tenuous peace that is somewhat stable and that there are these glimpses of democratic practices, but you still do have a deeply fractured civil society. So what do you see in terms of those types of post-conflict societies? What can these new leaders who are taking on the challenges of building good government, what can they do to use government in a way to administer foreign aid and economic development, but also bring the people together?

CG: The question, was it Liberia in particular or in general?

Question 4: In general.

CG: Okay, post conflict

KD: Well post-conflict. A conflict is a terrible breakdown of human society of human interaction. And therefore the period that comes after the conflict has challenges, difficulties, which are much bigger than that faced by other societies. Although, I must say sometimes a big crisis is also an opportunity; people have suffered a lot and they want to put the suffering behind them and are perhaps sometimes willing to do things that they were not willing to do before. So each crisis brings with it, sometimes at least, an important opportunity. I think particularly in post-crisis situations, the role of the international community is very important. In post-crisis situations you don't have very often, well now in Liberia you do, but until recently you didn't, you do not have a counterpart government which really is in control of the government, that has territory, which has legitimacy, which has the backing of the country or at least of the majority of the country so, the international community is very often in this situation, asked to play a role that is much much more hands-on. It is no longer an outsider, it is almost an insider. We've seen this in Africa, but we've also seen it in Europe. As you know, Kosovo is still basically a place, a territory, probably soon a country, that is under UN stewardship in a way. And I think that should be a temporary phase, as soon as possible of course, one should move back to full governance. Bosnia, by the way is the same, many decisions in Bosnia are still taken by outsiders that are trying to help. So one should, of course, try to move these societies back to their own national political structures as soon as possible, but that transition is very very delicate and there is also the statistic, that unfortunately 50% of countries that were in conflict tend to be again in conflict within a five year

period, so I think that measures the importance of the challenge we face. And here just some quick points. One is, it is very tough to move from the humanitarian to the development phase. Because you see in the humanitarian context, it is very difficult what one does, but in a way it is somewhat simpler. You have to distribute food, just distribute it to some people, you need temporary shelters so people don't die, tents whatever, earthquakes in Pakistan and so on. But then once the immediate humanitarian crisis is over, you have to move that humanitarian intervention to trying to provide jobs, trying to solve local governance problems, trying to see how to have shelter that is permanent, but then permanent shelters means how are you going to deal with property rights, with credit issues. How much money are you going to give to one group versus the other. Very complex issues that are more difficult than the purely humanitarian part, and that is where I think the UN system faces some of its biggest challenges- how to move from the humanitarian to the true recovery phase. And finally again, it is very very important in that phase that the UN and the international community as a whole is truly perceived as neutral between the various factions, that it doesn't side with one against the other. Of course, rule of law, human rights, one cannot side with somebody who for example violates human rights, but between the various ethnic and other conflicts, the importance of having that impartial approach, so that everyone can trust the UN that then leads to compromised solutions, which lead to elections, which lead to the kinds of situation in Liberia, where one now has a legitimately elected leader after a terrible conflict period, and now comes a very difficult task of economic development, but at least we are over that hump.

CG: We have time for one more question,. And I see a hand in the front here, if we could get the mic please.

Question 5: Can you hear me?

CG: Well, speak up.

Question 5: Local capital market development, local municipal bond market development. What roles do you see the UNDP being able to play when it come to legal financial regulatory frameworks that support the development of local capital markets and local bond markets by sustainable means for financing infrastructure and ultimate development. Just to let you know, there is a quorum of LSE graduates, like me, who are big supporters of this.

KD: Well, I am a LSE graduate myself, as you know. Access to finance, inclusive finance, whether it is in bonds or other means, is of course very very important for development. We sponsored a "Year of Micro-Finance" last year and it was a very successful year where we got lots of ideas, we created the "Blue Book" of possible recommendations and so on. Now, it is absolutely critical that poor people can access financial services, including just owning a bank account. A large number, I can't remember the exact percentage, when one thinks about, its amazing how large the percentage of people in many poor countries don't even have a bank account, let alone having access to credit. So there is a huge area of activity there which I think can be

extremely productive because there is tremendous productive potential at that level and unless one unleashes that, if you expect everything from the big corporations or from big investors from abroad which have an important role to play, but you certainly won't develop by that alone. Now how to do that, how to have the institutional mechanisms is of course very difficult, and the UN is not necessarily able to provide the kind of multitude of services, particularly not the financial backstopping that private banks or the World Bank can provide, but what the UN and what we are trying to do as part of the United Nations Capital Development Fund is to work on the regulatory side with the very very small micro-finance institutions, we do have a little window by which we can actually provide sources to the micro-finance institutions, but in order to preserve our resources which are very tight we are doing it only in the very very poorest countries so we are not doing it in middle-income, we are doing it only in the less-developed countries. The second thing that the UNCDF does, it does work exactly as you say with local governments to develop the capacity of local governments to provide overall business environments at the local level. And I am glad you made that point, and you asked that question because just as you have said in the world where the global economy, global finance, multi-national corporations are overtaking often the nation-state, from the global angle, we also have to remember that much of what is happening is happening at the level of the city, the region, or even the village. In governance, we have to remember that there are all these levels. We are not just talking about democratic governance: national parliament, national governments, or cabinet, but we are talking about what happens at the commune level, the regional level, the city level, and of course some cities are larger than countries. And then as I said, there is a global side to this, so in today's world when we talk governance, and I learned this phrase from the European Convention when I was a member of the people that tried to form the European Constitution, not with much success I have to admit after the elections in France and the Netherlands, but you know the "Principle of Subsidiarity" is very important. You need levels of government appropriate to the types of problems we are trying to deal with, you should solve local problems at local levels if you can, and then move up when problems become too complicated and go beyond the local level, and go up to the global level at the end, but that multi level architecture of governance is a huge challenge that we are facing, so when we talk about democracy and development, we have to remember that we are not dealing with one level but many levels.

CG: Thank you, Kemal. I first of all want to thank the audience for I think each of the five questions covered a very important point which in this magnificent *tour de resende* helped you amplify what you were getting at, and I want to thank the audience very much for helping in what I think was a magnificent discussion. I also want to thank McGraw-Hill which is our host tonight, we're going to have a reception afterwards in the adjoining room. And let me just say one other word in conclusion about Kemal Dervis and the presentation we've just had. I think one of the really most difficult problems in this complex, incredibly complex world in which we live in is how you can have people who are on the one hand practitioners, leaders, people who are dealing with practical affairs also being able to have some kind of a grasp on the theoretical literature and complexity of all the issues they are dealing with. I really think that this is very very rare in the world we live in. We at the National Endowment for Democracy publish a "Journal of

Democracy,” and the effort to try and relate thinkers to activists is extremely extremely difficult and tonight we had someone dealing with the relationship of two subjects: democracy and development, each of which is complex in its own right and their relationship to each other, adds a level of complexity that makes it all the more difficult to deal with. And I think what we heard tonight was very very special. I’ve rarely heard a kind of global presentation where so many different issues were dealt with including, and I might say in conclusion, that after all of the instrumental arguments were analyzed about democracy, that democracy is valuable in and of itself, Kemal Dervis is really a thinker as well as a practitioner, as well as a great democrat. Thank you.