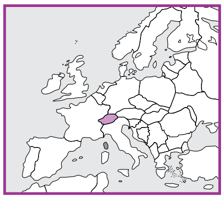
■ SWITZERLAND

Stagnating ODA and fading attention to poverty



After two years of obstacles, in June 2010 the Swiss Government finally presented a proposal to increase Swiss ODA. International pressure has forced this tax haven to make some concessions – its bank secrecy has begun to dissolve. Yet Swiss willingness to provide information relevant to tax illegalities has hardly changed. While the State champions open borders for trade, it continues to raise barriers against immigration from non-European countries. On the positive side, the Federal Cabinet has drafted a law that provides for freezing and repatriating stolen assets.

Alliance Sud – Swiss Alliance of Development Organisations

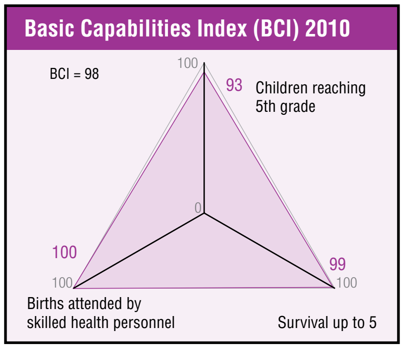
So far, Switzerland has weathered the current economic crisis relatively well. True, the Gross Domestic Product (GDP) contracted by 1.5% in 2009 and by the end of 2010 the official unemployment rate could rise to 4.5%- 5%, which is high by Swiss standards. But compared with the EU, where unemployment is 10%, and with far poorer countries in the global South, this small country in the heart of Europe is doing quite well. This resiliency has been maintained despite the modesty of Switzerland's economic stimulus programmes (a total of CHF 2.5 billion/EUR 1.7 billion) in comparison with those of other industrialized nations. In effect, the country's highly export-oriented economy has enabled it to freeload off the stimulus packages introduced by its major trading partners.

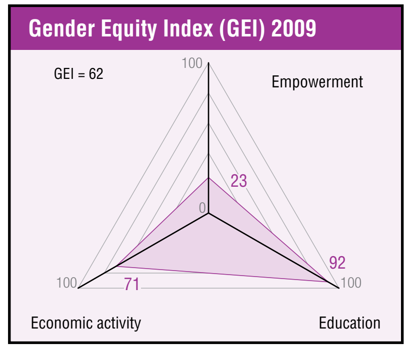
The outlook for the coming year is not bad either. The economy has been expanding since September and is expected to show 1.4% growth in 2010. Despite the financial crisis, the budget had a surplus of CHF 2.7 billion (EUR 1.8 billion) in 2009. The right wing-dominated Government is still pursuing a tough austerity policy. At the start of the year, it decided to slash public spending by CHF1.5 billion annually (EUR 1 billion) from 2011 to 2013. However, its attempt to reduce social benefits suffered a crushing defeat in early March when almost three-quarters of the voters rejected cuts in the pension system in a referendum initiated by the trade unions. This defeat indicates the strong opposition that awaits the other cuts in social services planned by the Government and the centre-right parliamentary majority – for example, those affecting unemployment insurance and the retirement age for women.

Stagnating ODA

From the very beginning the Swiss Government has offered strong verbal support for the Millennium Declaration and the Millennium Development Goals. That never translated into concrete actions, however. Seeking to generate a stronger commitment to the ODM, in May 2008 a broad alliance of over 70 NGOs, including trade unions and environmental organizations, submitted a petition with more than 200,000 signatures calling on the Government to increase ODA to 0.7 per cent of GNI.

The exceptionally large number of signatures had an impact: in late 2008 Parliament endorsed





increasing ODA to at least 0.5% of GNI by 2015. To date, however, the Government has refused to make the necessary credits available, citing the unsettled economic situation. Parliament will make a definitive decision in spring 2011. To reach the 0.5% figure, the country would have to invest roughly CHF 2 billion (EUR 1.5 billion) more in ODA by 2015.

Officially, Swiss ODA reached 0.47 per cent of GNI in 2009. However, much of that is phantom aid – allocations that are overpriced, mislabelled as aid or do nothing to help poor people. Expenditures on asylum seekers already in Switzerland and nominal allocations for bilateral debt written off long before accounted for 22% of the total. Excluding these items alone, ODA would have been about 0.36 percent of GNI.

At the same time, a trend towards exploiting development aid for foreign policy purposes is becoming more pronounced. The State Secretariat for Economic Affairs, the second most important player in official development cooperation after the Swiss Agency for Development and Cooperation (SDC) is withdrawing from the least developed countries and focusing instead on middle income countries like Colombia, Indonesia and South Africa where Switzerland is keen to expand its trade relations.

Lastly, funding for climate policy measures in the South may be carved out of ODA, rather than provided through additional allocations. At the climate conference in Copenhagen in December 2009, Switzerland agreed to allocate a total of CHF 150 million (EUR 100 million) for adaptation and protection in the South from 2010 to 2012. Where these funds will come from remains unclear. The SDC and development NGOs are insisting that funding for climate policy should not interfere with poverty reduction; in other words, should not come out of ODA. Whether they can prevail remains to be seen.

In addition to insufficient ODA, a lack of consistency in Swiss policy toward the Global South has been a major problem. As is detailed below, in policies relating to the financial sector, trade and migration, Switzerland is undermining the explicit objectives of its development cooperation work – combating poverty and promoting human rights. Switzerland has mechanisms for developing consistent policies. However, as the failure to increase ODA indicates, the Government does not have the political will to implement them. The only solution is to institute a development impact analysis of all government decisions, laws and sectoral policies to determine their development impact. This is still a long way off.

Aggressive trade policy

At the 2005 WTO Ministerial Conference in Hong Kong Switzerland strongly supported free market access for the poorest countries and in April 2007 it introduced free market access for goods from the Least Developed Countries (LDC). All tariffs and quotas have been officially eliminated, a Swiss endorsement of the EU "Everything but arms" initiative.

Nevertheless, as Alliance Sud has shown, hidden tariffs remain.[1] They are assessed on all imports of sugar, rice, coffee and edible oils, including those from LDCs through a levy known as the "guarantee fund contribution" that finances compulsory food stockpiles meant to guarantee the country will have adequate supplies in times of war, natural disaster and other crises. Alliance Sud has denounced this violation of the principle of free market access and demanded that the levy be abolished immediately.

1 See: <www.alliancesud.ch/en/policy/trade/swiss-emergency-stockpiles>.

It is incomprehensible that LDCs such as Ethiopia, Bangladesh and the Cape Verde Islands should be indirectly subsidizing emergency stockpiles in one of the world's richest countries. This hidden tax brings in about CHF 12 million each year; its abolition would pose no financial problem.

The country's bilateral trade policy towards countries in the South has greater consequences. Switzerland is part of the European Free Trade Area (EFTA), which also includes Norway, Iceland and Liechtenstein, and is the driving force behind free trade agreements with third countries. It also insists on including provisions that go beyond WTO rules for the protection of intellectual property rights, as well as for market access for industrial goods and financial services, government procurement and investment.

These provisions can have very negative effects on partner countries, including on the right to health, industrial policy and human rights. For example, to benefit its pharmaceutical and seed companies (Novartis, Roche, Syngenta, etc.) Switzerland is demanding an extension of patent protection and exclusive property rights over research findings. These restrictions make it difficult for poor countries to produce generic drugs and provide their populations with affordable medicines. They can also affect food security if farmers no longer have free access to seeds. In ongoing negotiations on a free trade agreement with India, Switzerland is pushing for drastic reductions in industrial tariffs, which would give its companies greater market access. This stance totally disregards the importance of duties for countries of the South as both a source of development financing and an industrial policy instrument.

In 2009 Switzerland became the first developed country to ratify a free trade agreement with Colombia. So far at least, Norway and the USA have refused to ratify similar agreements owing to Colombia's poor human rights record. The Swiss Government overcame similar opposition in its own Parliament, arguing that trade agreements should not be linked to human rights or environmental standards: trade comes before morality.

Foreign direct investment provides little benefit to poor countries

Opponents of an ODA increase often argue that Swiss direct investments in the South create jobs and thereby contribute more to sustainable development than does development assistance. In truth, poor countries benefit only marginally. Swiss Foreign Direct Investments (FDI) are exceptionally high – new investments totalled EUR 45.2 billion in 2007and EUR 37 billion in 2008[2] – but only EUR 9.7 billion of that went to non-industrialized countries in 2007 and EUR 8.3 billion in 2008, and only 3 percent of the 2008 total went to least developed or low income countries.[3]

Apartheid in migration policy

While Switzerland champions maximum openness of borders for trade in goods and services, when it comes to the movement of persons, it insulates itself against immigration from non-European countries. Only highly skilled migrants can hope to obtain a work permit in this wealthy alpine country. Less skilled migrants from developing and other non-EU countries have little chance of being able to work legally in the country. Thus Switzerland provides no opportunities for migrants who could contribute to their home country's development (through remittances or skill acquisition). This highly restrictive immigration policy has created a situation in which tens of thousands of people are living and working illegally. These migrants, commonly called *Sans Papiers* (undocumented people), are estimated to number between 90,000 and 180,000. In the spring of 2010 the Parliament finally decided that the children of *Sans Papiers* could not only attend school, which they had been able to do, but also receive vocational training. This does not entitle them to any kind of legal status, however, and their parents continue to be at risk of repatriation to their homeland.

In this context a Minister of Foreign Affairs mandate to SDC to draft a new migration programme designed among other things to help stem "undesirable" migration from non-EU countries is particularly distressing. This directive has aroused considerable discontent, even at the OECD Development Assistance Committee (DAC). The latest Switzerland Peer Review (2009), comments that the country "needs to ensure that its development co-operation is not serving a migration policy that undervalues development concerns."[4]

Damaged tax haven

On the plus side, the well-known refusal of Swiss banks to divulge information to foreign tax authorities was relaxed considerably in 2009. This new willingness to allow greater transparency in information exchange and cooperate with efforts to fight tax evasion represents a concession to international pressure. Despite these reforms, Switzerland has not yet altered its information policy on tax matters that concern developing countries.

Conservative estimates suggest that banks in Switzerland manage at least at least USD 360 billion in untaxed private assets that came from developing countries. For countries in the South, the tax income that could be derived from interest accruing on those assets – as well as from taxes on income that has been illegally spirited out of the country and into Swiss banks – would be a significant source of funding for development and poverty reduction. Switzerland's willingness to shield tax evaders from developing countries stands in stark contradiction to the UN MDG and the country's declared commitment to help poorer countries mobilize domestic resources.

When the OECD placed it on a black list of uncooperative tax havens in early March 2009, the country risked being hit with G-20 economic sanctions. To avert this, the Government quickly revoked its reservation to Article 26 of the OECD Model Double Taxation Convention (DTC) and declared its readiness to provide administrative assistance in cases of tax fraud and even in simple cases of tax evasion. Switzerland also hastily launched negotiations with several OECD countries to review and adapt the existing conventions. The new protocols still fail to provide for the automatic exchange of information. To obtain bank information from Switzerland on suspected tax evaders, foreign authorities must make a strong case, provide the name of the suspect and have detailed information on the accounts.

So far, Switzerland has only negotiated revised conventions and agreed to provide international assistance in simple tax evasion cases with OECD countries and Kazakhstan. Reportedly, after the Kazakh Government declared its intention to add Switzerland to its own blacklist of tax havens and follow up with a ban on Swiss investments its request for negotiations was processed very quickly. This is a notable exception. Federal cabinet strategy reports on the new financial policy repeatedly emphasize that in renegotiations of DTCs, priority should be give to the OECD countries. For the time being, Swiss banks will continue business as usual with assets that have evaded taxes in developing countries.

Even so, at the UN Conference on Financing for Development in Doha in late 2008, Switzerland signalled its willingness to offer developing countries a savings tax agreement similar to the one it presented to the EU. Under this agreement, Switzerland would levy a tax on foreign investment income and transfer a portion of the revenue back to the countries of origin. In spring 2009, the Federal cabinet reiterated this offer but made it clear that governments of developing countries would have to take the next step.

Progress on stolen assets

It is gratifying that in late 2009 the Federal cabinet began drafting a law on freezing and repatriating stolen assets. The bill establishes procedures for barring foreign rulers and their allies from access to their illegally acquired assets and returning them to the population of the country concerned. However, civil society organizations, including Alliance Sud have declared that the conditions it lays out for recovery and restitution of stolen foreign assets are too restrictive. For restitution, the authorities of the country concerned must make the request; it cannot be initiated by Switzerland or by a civil society organization. The bill is currently in the consultation phase; hopefully it will be strengthened before it is passed. ■

2 Swiss National Bank: *Direktinvestitionen 2008*, Bern, December 2008, A3.

3 Swiss Agency for Development and Cooperation, *Entwicklungshilfe der Schweiz, Statistiken 2008*, Bern, November 2008, 7.

4 OECD DAC, Switzerland Peer Review, Paris 2009, 43. Available at: <www.oecd.org/document/22/0,3343,en_2649_34603_44020118_1_1_1_1,00.html>.