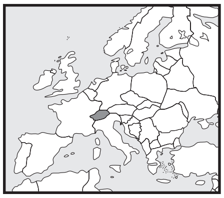
SWITZERLAND

Inadequate commitment



One of the world's richest countries, Switzerland falls woefully short when it comes to honouring international commitments. The country provides meagre development aid, does not take part in efforts to develop innovative global funding mechanisms and, while remaining a magnet for funds derived from tax evasion, the country is not cooperative in matters of international tax policy. It is important that Switzerland change its tax policy in order to help developing countries generate resources for development.

Alliance Sud[1]
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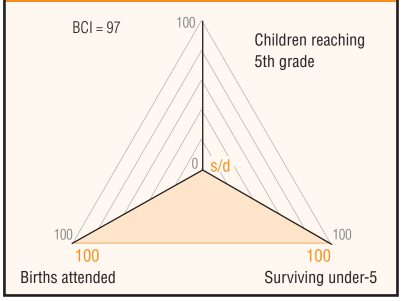
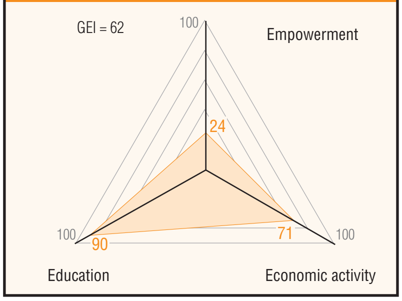
Basic Capabilities Index (BCI)



Gender Equity Index (GEI)



The Swiss economy performed impressively during the recent global upswing, according to the International Monetary Fund 2008 annual review of the country's economic and monetary policy.[2] Indeed, Switzerland has ridden the global economic expansion with much success. Its economic growth rate exceeded the Euro area average in the past four years. Exports and imports showed strong growth. The current account surplus reached 17% of gross domestic product. Inflation remained low, and unemployment fell to 2.6%. On balance, public budgets (confederation, cantons, municipalities) are showing considerable surpluses and debts have been reduced.

True, the Swiss economy has been affected by the financial crisis emanating from the United States – UBS and Credit Suisse have taken considerable losses and will pay fewer taxes – and growth forecasts are only cautiously optimistic. But the level of satisfaction among working people is higher than ever, even while income inequality has grown, the number of welfare recipients is still high and social welfare benefits are being quietly curtailed. The new poverty is affecting young families in particular, and especially households headed by single parents. The situation is tough for undocumented immigrants. Minimum daily allowances are being used to make remaining in Switzerland unattractive for rejected asylum seekers.

As a development agency, Alliance Sud does not address questions of poverty within the country.[3] In what follows we focus on how Switzerland practices solidarity with the world's poor.

ODA target still not met

Switzerland has never officially recognized the international goal – endorsed by the 2002 Monterrey Consensus – of 0.7% of gross national income (GNI) to be allocated to official development assistance (ODA). At the 1991 Earth Summit in Rio de Janeiro, Switzerland promised to increase aid to 0.4%. At the September 2005 UN Millennium Summit, it held out the prospect of raising its ODA after 2008. Swiss NGOs and the Government's Advisory Committee for International Development have repeatedly called for aid to be increased to 0.5% by 2010.

In 2003 Switzerland's aid reached 0.39%, rising to 0.4% one year later and to 0.44% in 2005. Yet this increase was essentially attributable to substantial debt relief (mainly for Nigeria and Iraq) and to spending connected to asylum seekers. Debt relief has been computed as aid since 2003 and asylum spending since 2004. In 2006, the figure fell back to 0.39% and in 2007 to 0.37%. If asylum-related spending and debt relief are subtracted, Switzerland's aid allocation comes to just 0.31%, equal to the 1990 level.

With its mid-term financing plan, Switzerland is committed to reaching 0.4% by 2015. This year, Parliament will have to vote on the proposed new development cooperation strategy, based on three pillars: poverty reduction, human security, and development-friendly globalization. Under the proposal, the level of ODA would stay at 0.4% of GNI, but parliamentary motions for an increase are being drafted. With regard to current discussions on Financing for Climate Change (mitigation and adaptation) and Financing for Development, the Government is urging development partners to distinguish between the two and to ensure that an increase of available funds for climate change does not come at the cost of lower ODA.

Alliance Sud launched a campaign jointly with some 70 relief agencies, environmental protection, youth and women's organizations, trade unions and churches to raise Swiss ODA to 0.7% of GNI by 2015. A petition was signed by *over 200,000* persons and delivered to Parliament and Government at the end of May.

Aid effectiveness and financing for development

Switzerland has reiterated its commitment to the Organization for Economic Cooperation and Development (OECD) aid effectiveness agenda as the overall framework in which to achieve internationally agreed development goals, including the Millennium Development Goals (MDGs). It acknowledges the need to align aid with national development priorities and poverty reduction strategies and utilize country systems for implementation. It has urged developing countries to continue to improve democratic governance and public administration, making government more responsive and transparent. The country strongly advocates the integration of the non-OECD donors into discussions on aid effectiveness and recommends coordination and information sharing between the Accra meeting on aid effectiveness in September and the Doha meeting on financing for development in November-December 2008.

Multilateral Debt Relief Initiative, IDA and AfDF replenishment

Switzerland long hesitated to commit definitively to the second tranche of the Multilateral Debt Relief Initiative (MDRI) and the internationally agreed replenishment of the International Development Association arm of the World Bank (IDA) and the African Development Fund (AfDF), and decided in January 2008 to only partially support replenishment. This meant a reduction in Switzerland's IDA burden sharing from 2.26% to 2.1%, and from 3.38% to 2.3%

1 Swiss Alliance of Development Organizations: Swissaid, Catholic Lenten Fund, Bread for All, Helvetas, Caritas, Swiss Interchurch Aid.

2 Switzerland: 2008 Article IV Consultation, Concluding Statement of the IMF Mission Bern, 17 March 2008, <www.imf.org/external/np/ms/2008/031708a.htm>.

3 For a good overview, see the Caritas yearbook on the social situation in Switzerland: Caritas, 2008 Sozial-Almanach, Luzern, December 2007 (in German only).

for the AfDF – a saving of CHF 138 million (USD 125 million). For the coming three years, the IDA will still receive more funds from Switzerland than it did in the previous years. In contrast, the Swiss contribution to the AfDF will be CHF 8 million (USD 7.25 million) less than it was before. To make up the shortfall, half of the additional funding required will be offset against bilateral aid, while the remainder will be funded from the overall budget. Thus, it is clear that Switzerland's second contribution to the MDRI will not be entirely in addition to other development assistance.

Switzerland, the world treasurer

The Swiss Financial Centre continues to manage one-third of all assets held outside their countries of origin, where a large part of them are not properly taxed, and Switzerland has not changed anything in the configuration of this centre.[4] The Swiss National Bank puts the security holdings of foreign private customers as of end-2007 at CHF 1,036 billion[5] (USD 937.58 billion). In addition, there are trust funds worth some CHF 328 billion (USD 296.84 billion). Most of the balance sheet liabilities to foreign customers (CHF 629 billion – USD 569.25 billion) must also pertain to private customers. Lastly, some part of the assets of domiciled companies owned by foreigners must be added, although they appear in Swiss National Bank statistics as domestic customers.

International estimates of these private foreign security holdings are even higher. The Merrill Lynch/Cap Gemini 2007 World Wealth Report estimates overall assets held abroad by private customers at USD 12,400 billion; the Boston Consulting Group estimates USD 5,700 billion. It is generally agreed that about one-third of this amount is managed by the Swiss Financial Centre.

Funds currently managed by Switzerland should therefore fall somewhere between CHF 2,500 billion and CHF 4,000 billion (USD 2,262-3,620 billion), one-third to one-half from developing countries. It is estimated that 50% to 90% of this amount either has not been taxed at all or not properly taxed in the countries of origin. The treasuries of developing countries are therefore foregoing billions in revenue that cannot be used to fund the MDGs.

The need for a new tax policy

Switzerland is reluctant and uncooperative in matters of international tax policy. In 2005, the country rejected proposals for global taxes and did not join the Leading Group on Solidarity Levies to Fund Development.[6] It still refuses to join the Global Forum on Taxation, in which OECD countries work out binding rules jointly with offshore centres, for example, for cross-border tax information sharing. It has not signed the joint Council of Europe/OECD Convention on Mutual Administrative Assistance in Tax Matters. The ratification of the UN Convention against Corruption too has been postponed indefinitely.

Alliance Sud advocates that Switzerland adopt an international tax policy that is less harmful to countries in the South and instead helps them to generate internal resources for development. Such a policy must also include combating tax and capital flight. In particular, Switzerland should do away with its distinction between tax fraud and tax evasion, and also provide legal and official assistance in cases of tax evasion. Switzerland has in fact concluded double taxation agreements with many developing countries, yet it does not provide them with the same access to information it provides to the European Union countries and the United States.

It is only in the recovery of illegally acquired public assets that Switzerland contributes actively in different forms. The country supports the joint UN and the World Bank StAR Initiative (Stolen Assets Recovery Initiative) and also launched and funds the International Centre for Asset Recovery, assisting developing countries in capacity building and the establishment of institutions to make effective use of international legal assistance in criminal matters related to the recovery of stolen assets.

Switzerland returned more than CHF 400 million (USD 362 million) to Nigeria's central budget and signed an agreement with Angola for the repatriation of USD 21 million identified and blocked in Swiss bank accounts. However, NGOs in Nigeria and Switzerland were critical of the inadequate monitoring of the restitution of funds to Nigeria, which provided no certainty that they would go towards social development. These funds should be allocated to social and humanitarian programmes under the supervision of the field office of the Swiss Agency for Development and Cooperation.

Innovative funding

Switzerland acknowledges the potential of certain innovative global funding sources and the need for further research into their feasibility and applicability. The country emphasizes, however, that funds collected through innovative financing schemes should be disbursed through existing multilateral institutions and mechanisms.

In sum, if Switzerland is to become a genuine development partner, in line with the EU countries whose growth it equals or surpasses, it needs to revisit its long-standing position on international tax policy and adhere to international commitments on the financing of IDA, MDRI and AfDF. Subject to its internal politics it should also commit to raising the percentage of GNI it allocates to ODA to conform to European standards. ■

4 *Social Watch Report 2006*, chapter on Switzerland, p. 246 ff.

5 Swiss National Bank (SNB), *Banks in Switzerland* 2007 edition, Zurich 2008, available from <www.snb.ch>.

6 *Social Watch Report 2006*, *op. cit.*