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Last chance for the Millennium Development Goals: Challenges for Switzerland at all levels

In September the UN is set to take stock of 10 years of Millennium Development Goals (MDGs) and to discuss measures to realize them to the extent possible by 2015. Switzerland will chair the UN summit and also faces challenges considering its rather meagre MDG track record.

Even though the outcomes so far are somewhat mixed, the millennium goals are still achievable, writes United Nations Secretary-General Ban Ki-Moon in his report «Keeping the promise» addressed to the September UN Summit. It will take enormous efforts from all the parties, however.

Many developing countries have focused too little on poverty reduction; numerous industrial countries have neither increased their aid sufficiently nor worked credibly to bring about improved framework conditions for development. Global crises (financial and economic crisis, food crisis, climate change) engendered in the North have wiped out the successes achieved in the South (see the short article on page 3).

Switzerland too is facing its challenges. It has indeed made some efforts to promote the MDGs. For example, it invests more than other countries in rural development, in that way helping to overcome hunger (MDG 1). Its practice-oriented cooperation with local authorities and civil society is yielding successes, in the water sector for example (MDG 7). Despite this, the interim findings are mixed.

Development assistance not increased sufficiently

First, Switzerland has increased its development assistance only minimally. Aid has indeed increased from 1.5 to 2.5 billion francs (+64%) since 2000. Yet the figures are misleading, since at that time they included neither spending on asylum

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Financial crisis, Act Two

Since 2008, governments have spent 20,000 billion dollars for bank bailouts and economic stimulus, with the logical consequences for their debt levels. In relation to their economic output, emerging countries have even provided more money than the industrialized ones, and thanks not least of all to their «underdeveloped» financial markets, they have weathered the crisis surprisingly well. This massive expenditure has averted the collapse of the banking system and the world economy. Months ago the signs were that the recession had also been overcome in the industrial countries and that their economies were again showing growth.

Then the euro crisis broke. Its roots lie in the imbalances in the euro zone that have existed since its inception. Germany is financing the current account deficits of the weaker euro countries by means of credits, in turn selling its surpluses to them. Germany's growth has been generated mainly in other euro countries even as the German domestic market stagnated thanks to enforced wage «restraint».

Something similar is happening on the world scale. China and others are funding the USA's double deficit so as to be able to sell their massive surpluses to that country. But there is one essential difference: the USA has its own currency, which depreciated on the back of the crisis thereby reducing its current account deficit. Not so for Greece. It must grapple with domestic deflation, in other words, cuts in state spending and wages, and this is a sure way to descend into depression and persistently high debt levels.

In the autumn of 2008 most governments displayed a «Keynesian» reaction to the financial crisis, as illustrated by the 20,000 billion. Today they are reverting to orthodoxy. In May the OECD recommended the ending of economic stimulus programmes, the raising of base rates and the reduction of government debts – and this although it foresees no strong medium-term surge in inflation, but on the other hand persistently high joblessness. In a way this amounts to generalizing the Greek programme to everyone. Europe's ruling elites seem more inclined toward this path than the USA. It would appear that as Latin America celebrates 200 years of independence from Europe, the old continent is bent on experiencing its own «lost decade», with uncertain implications for the world economy and for the continent's political and social equilibrium.

Peter Niggli,
Director

... *continuation of page 1*

seekers in the country nor the totality of debt cancellations – unlike today. When these expenditures are left aside, Switzerland's 2009 figure does not reach 0.47 per cent of gross national income (GNI) but 0.36 per cent (2000: 0.34%). A look at spending on aid in the South and East and on humanitarian assistance is revealing: it has increased by a mere 363 million francs (+27%) since the year 2000.

Second, for years now, Switzerland has been reserving only a quarter of its overall aid for the poorest countries. On top of this, in 2008 it expanded the remit of its development cooperation programme without providing additional resources for that purpose. Not only is it now required to combat poverty, but must also contribute to «development-friendly globalization». The result is that the

«Switzerland protects its economic interests without regard for the developing countries.»

MDGs are slipping into the background. Here are two examples:

For the purposes of the MDGs, the Swiss Agency for Development and Cooperation (SDC) focuses on its bilateral priority countries, which are amongst the world's poorest. Yet it is neglecting them. In just four cases is it in fact investing of the 20 million francs per year that it described in its own 'Message on countries of the South 2009' as the minimum for making a meaningful contribution to the MDGs. On the other hand, under the theme of «development-friendly globalization», it is stepping up cooperation with emerging countries like China or Brazil, for example under the new global climate programme, the annual budget for which is 20 million francs.

By the same token, the State Secretariat for the Economy (Seco) is withdrawing from the poorest countries to concentrate instead on more advanced developing countries with which Switzerland is keen to deepen its trade ties. Its justification for this new orientation is that poverty needs to be reduced in these countries too. Yet its economic aid is achieving very little in these cases because it is bypassing peripheral regions, micro enterprises and women.

Insufficient development policy coherence

Lastly, Switzerland has done very little to fashion its overall policy so as not to hamper the social and economic advancement of poor countries and their peoples. Some headway has been made in the restitution of «stolen assets», and in regard to goods imports from the

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Cover photo: Protest march in Dublin (Ireland) supporting the worldwide «Make Poverty History» campaign in the run-up to the G8 summit in Scotland, June, 2005. (Photo: Keystone)

Faces change, the commitment remains. Campaign in front of the Parliament building in Berne reminding the Members of the Swiss Government to keep their promises to implement the Millennium Goals. (Photo: Alliance Sud, 2008)

poorest countries, which are no longer subject to duties and quotas.

Apart from this, hardly anything has changed in development policy coherence. At the multilateral and bilateral levels Switzerland continues to protect its economic interests without regard for the developing countries. In the realm of patent protection it is preventing access to drugs and restricting small farmers in their use of seeds. It is insisting on the liberalization of the trade in industrial goods whilst ignoring the enormous significance of import duties for developing countries as a source of funds with which to reduce poverty, foment national industries and create jobs (see article page 11).

The most recent progress in Switzerland's international tax policy (administrative assistance, information sharing) has left the developing countries at the back of the queue. They are still losing billions in income on account of tax avoidance and tax fraud. Neither is Switzerland's immigration policy becoming any more accommodative towards them – the borders are closed to people from the South. In the international financial agencies Switzerland is blocking moves to grant appreciably more influence to emerging and developing countries, and refusing to relax lending conditions that limit their policy space.

Homework for Switzerland

To make a specific contribution in this the final sprint towards the millennium goals, much remains from Switzerland to do:

- Distinctly more resources are needed. The top priority is to rapidly increase development assistance to 0.5 per cent of GNI. The additional funds should be targeted at the poorest countries and more specifically at the most disadvantaged population groups, in particular women and indigenous peoples.
- expeditious measures are needed to improve development policy coherence (see interview on page 4/5). More particularly, cooperation with developing countries in tax matters must be improved and tax evasion by wealthy individuals and companies prevented.
- the realization of human rights should be central to development cooperation and to Swiss policy in multilateral organizations and in international and bilateral negotiations.

Ten years after the MDG commitment **Mixed findings**

In 2000, the heads of all UN Member States signed off on eight Millennium Development Goals (MDGs). They are to be achieved by 2015 and should halve extreme poverty and hunger, guarantee primary schooling for all children, improve the situation of women and girls, reduce infant and maternal mortality, stop the spread of HIV/Aids, malaria and tuberculosis, as well as improve access to clean drinking water and sanitary facilities. In MDG 8, the industrialized countries committed to assisting the poor countries to that end by means of debt forgiveness, more and better development aid and a fairer trading and financial system.

Ten years on, UN Secretary-General Ban Ki-Moon makes a mixed assessment. Considerable partial successes have been scored with regard to income poverty, schooling for children and access to drinking water. On the other hand, achievements are falling woefully short when it comes to maternal mortality, the provision of sanitary facilities, and gender equality. The number of hungry people again topped one billion in 2009. The situation is particularly precarious in many African countries, and more so in those with conflicts. Yet even these countries are making progress, although they are starting out from a considerably lower level than other countries.

Things are looking bleak for MDG 8: The WTO round of negotiations, which was expected to bring improvements to the South, is deadlocked. Development assistance has not been increased to 0.7% of Gross National Income (GNI) as promised. In 1992 it averaged 0.44%, in 2009, 0.48%. Only one third of that flowed into the poorest countries. Lastly, the global crises caused by the rich countries (financial crisis, food crisis, climate change) have again reversed the MDG successes already scored.

Pepo Hofstetter

www.un.org/millenniumgoals/

Interview

Effective development aid depending on overall policy
Coherence watchdog needed

Gilles Carbonnier (Photo: IHEID)

Under Millennium Goal 8, the industrialized countries have committed to effectively supporting developing countries in implementing the millennium goals. This implies not just more and better development aid but a more coherent overall policy towards the South. Gilles Carbonnier, professor at the Graduate Institute of International and Development Studies (IHEID) in Geneva, sees much to be done with respect to coherence in Swiss policy.

How do you assess Switzerland's contribution to promoting the millennium goals?

Gilles Carbonnier: There are three dimensions: the financial contribution, the quality of development aid and the coherence of the overall policy. Financially, Switzerland is indeed spending more today on development assistance. Yet a closer look reveals that this is not primarily advancing the millennium goals. The increase is due mainly to the fact that assistance to asylum seekers within Switzerland and debt relief measures are being computed as aid. Switzerland needs to make a special effort in this regard. As a first step, it should increase its assistance to 0.5 per cent of gross national income, at the same time ensuring that the additional funds are in fact being used to promote the millennium goals.

Is the quality of its development assistance what it should be?

The quality of Swiss assistance is relatively good. For example, it has rightly continued its programmes in agriculture, whilst other donor countries are neglecting them. Switzerland's bilateral aid has specific strengths that should be preserved. What is mainly under discussion today is the share that should go towards multilateral cooperation. It is clear to me that the major global challenges must be tackled multilaterally. It seems artificial to me to want to cap the share of multilateral aid.

The picture is not as bright when it comes to coherence in Switzerland's policies.

As is the case with other donor countries, much needs to be done in this regard. For the effectiveness of aid is highly dependent on what is being done in other policy areas that impact the poor countries. Take the example of agricultural policy: however massive the support given to agriculture in poor countries, it is all but pointless if their farmers are unable to export their products or, if on account of export subsidies in the industrialized countries, they are unable to obtain reasonable prices in their own countries.

Do you see Switzerland's greatest coherence problem in its agricultural policy?

No. There are various areas in which policy is contradictory and at odds with the aims of development policy, and poverty reduction in particular. Agricultural policy and agricultural trade policy are important. But I do not have background information needed to be able to say that they are more significant than Switzerland's policy on migration, patent protection, global warming, weapons exports, the financial centre or any other area. There are studies showing that problems of coherence do exist. So far however, there has been no in-depth research rigorously showing the consequences of this or that policy.

Despite awareness of these contradictions, little has happened so far.

In 1994 Switzerland played a pioneering role on the international stage with the approval of the North-South Guidelines. In it, the Swiss Government laid out the framework for a development policy that would encompass not just development assistance but the totality of relations

«Switzerland then went to sleep whilst other mostly northern European countries took concrete steps to improve coherence.»

Lack of coherence: Switzerland demands rigid patent protection for medicines, thereby hampering access to health in poor countries. In the picture: Pills being packaged at a Novartis subsidiary. (Photo: Keystone)

with the South. One could be justifiably proud of the country at the time. But Switzerland then went to sleep whilst other mostly northern European countries took concrete steps to improve coherence.

Why?

Perhaps it has to do with the political system and its many consultation mechanisms within the administration and the government. We discuss the problem more at a technical level, among specialists. In Holland, Norway or Sweden the topic of coherence is discussed systematically at the policy level.

Yet another problem: those affected, those who would benefit from greater coherence do not have the vote in Switzerland and cannot express themselves directly, in contrast to other interest groups such as the private sector or farmers. Development organizations like Alliance Sud have an important role to play in this regard – they must channel the voice of the poor.

It is also important to put specific mechanisms in place to improve coherence.

Have you specific suggestions?

In Switzerland there is hardly any clarity within the entities concerned as to how coherence should be improved and who should do it. Things are different in the European countries mentioned earlier. They have an office or a commission that monitors development policy coherence during legislative discussions and in political decision-making. But that also calls for practical expertise: what is the best way to influence policy, how can development interests be brought into the picture? The official development agencies have hardly bothered about this in the past, it was not in their genes, as it were.

This could be a challenge for the Swiss Agency for Development and Cooperation (SDC).

Let us take migration policy, where the problems of coherence are complex. It is encouraging that the SDC now has a global migration programme. This will enable it to improve its expertise and its understanding of the connection between migration and development and work towards a Swiss migration policy that is fairer to poor countries. One does have to wonder though, whether we do not need an additional body that would be responsible for issues of coherence. It would need to have a strong position vis-à-vis the various offices in the administration.

A kind of watchdog that would systematically scrutinize Swiss policy on the South for its «development compatibility»?

It would have to analyse the developmental consequences of new laws, ordinances and mandates in international negotiations and explain them to the parliament. That would open the way for a genuine public debate on the problems of coherence. Sweden and Germany recently introduced such a mechanism. In Switzerland we have something similar for the EU in that every new law is scrutinized for its compatibility with the EU-policy. Why not introduce the same thing for «development impact»?

Interview by Michèle Laubscher and Pepo Hofstetter

How many ways to the goal

Development policy coherence can be improved by means of various mechanisms. In 2006, Norway appointed an independent commission to analyse conflicting objectives in various policy areas and make recommendations. Since 2002 an office in the Dutch Foreign Ministry has been examining how the country's policies and those of the EU impact developing countries and jointly with other ministries has been working out the Dutch positions for negotiations within and outside the EU. Sweden has gone the furthest, passing a law in 2003 making all ministries responsible for coherence. It is incumbent on them to ensure that their policies contribute to the development of poor countries and to find solutions for conflicting objectives. Every year the government gives an account to parliament of the progress made and sets the priorities for the future.

Michèle Laubscher

Michel Egger

OECD guidelines for multinational enterprises
A chance to give them more bite

The OECD has social and environmental guidelines for multinational enterprises. Their formulation is flawed and non-binding, yet they are the most important official system of standards for multinationals to date. The review of those guidelines is an opportunity to eliminate the worst shortcomings and improve on Switzerland's implementation of them.

In August 2001 bulldozers razed the village of Tabaco in northeastern Colombia and the residents were driven out. Behind that illegal action was El Cerrejón, the world's largest open-pit coalmine. It is one-third owned BHP Billiton (Australia), Anglo-American (United Kingdom) and Xstrata (Switzerland) respectively.

In the light of this expulsion the Swiss-Colombian Working Group (ASK) filed a complaint in October 2007 with the Swiss Contact Point, which is responsible for upholding the OECD guidelines. In parallel, a complaint was also brought against BHP Billiton in Australia. The aim was to create a balanced and transparent negotiating framework for the affected indigenous community (Afro-Colombians) and to find a solution that afforded them dignified living conditions.

Makeshift job instead of lasting improvements

The Australian Contact Point assumed the leadership. The procedure lasted until June 2009 and was complex and frustrating for the displaced village community. The complaints did indeed generate international pressure and forced El Cerrejón to agree to a review of its social policies and to negotiate an agreement with the displaced people. Yet the implementation of the agreement remains flawed, the situation of the displaced people has hardly improved, and they are not being adequately compensated. The reconstruction of the village at another site is yet to materialize. Moreover, four other communities are now under threat from El Cerrejón.

The complaint against Xstrata was not the first to be filed in Berne. Since 2001, 12 complaints have been lodged with the Swiss Contact Point and Switzerland took the lead in eight cases. The last complaint still pending to date is that against the underwear manufacturer Triumph on account of mass dismissals in Thailand and the Philippines. Most of the others have been over trade union conflicts at Nestle subsidiaries. The El Cerrejón/Xstrata case is special in that it concerns indigenous communities that do not have the support of an international trade union. This makes it all the more emblematic of the shortcomings of the OECD Guidelines, which have come in for criticism from the NGO network OECD Watch and the UN Special Representative for Business and Human Rights, John Ruggie.

Business-friendly and intransparent

One first flaw is that the national Contact Points are often not independent. In Switzerland, it is located at the Office for Investment Promotion of the State Secretariat for the Economy (Seco) and is not accountable to the parliament. Conflicts

Toothless OECD Guidelines: Despite complaints against Xstrata and other companies, more and more settlements are being displaced by the world's biggest coal mine El Cerrejón (Colombia). (Photo: Stephan Suhner / ASK) of interests are thus pre-programmed, as El Cerrejón shows. «The case was closed without Seco having brought any pressure whatsoever to bear on the company», says Stephan Suhner of ASK, who was spearheading the complaint. «The Contact Points in Switzerland and Australia have basically given credence to the scant information supplied by the companies, although the latter were hardly cooperative. They scarcely took note of the detailed reports from the affected communities.»

A second problem is that the procedure is untransparent and protracted, and even more so when, as in the El Cerrejón case, several countries are involved. Third, the Contact Points often confine their role to encouraging dialogue and their final reports are hardly meaningful. They invoke for that the voluntary nature of the Guidelines. Stephan Suhner has voiced the criticism that in the case of El Cerrejón, the Seco Contact Point acted rather passively and refused to hear the affected people or to insist that Xstrata take a stand on the proposed solutions. «Alleging a lack of resources, Seco has rejected all proposals from the complainants: any further meetings with the firm, on-the-spot investigations, or arbitration proceedings.» Besides, no steps were taken to monitor the implementation of the agreement between the mine and the village community.

«As home to an above-average number of multinational enterprises, Switzerland faces a special challenge.»

Holland and Great Britain as trailblazers

The weaknesses lie not only in the shortcomings of the guidelines, but also in the lack of political will. Some countries are much more committed in their approach and are better organized. For example, 11 of the 42 signatory states have included two or more government offices in their Contact Points; 12 have taken on board other stakeholders such as business associations and NGOs.

Three years ago, the NGO network OECD Watch put forward a model in the form of an independent, multistakeholder Contact Point. The United Kingdom and Holland took inspiration from it. The British contact point was thoroughly reformed and is today being run by two offices (development cooperation and business promotion). It reports to a steering group that includes representatives from the parliament, trade unions and NGOs. Similar to courts, it publishes detailed final reports setting out any infringements of the Guidelines. As a pilot project, Holland has launched a Contact Point consisting mainly of independent experts and which also carries out on-the-spot investigations.

Homework for the Swiss Government

These initiatives may not be perfect, but they do illustrate one way in which the unsatisfactory situation can be improved upon. Switzerland would do well to take an example from this. As home to an above-average number of multinational enterprises, it faces a special challenge: after all, Switzerland's direct investments abroad amounted to 732 billion dollars at the end of 2009.[1] On a per capita basis, Switzerland thus ranks second behind Hong Kong.

The review of the OECD Guidelines presents the Federal Cabinet with an opportunity to make improvements to the Contact Point. In future it should be led by an interdepartmental office consisting not only of Seco, but also Political Division IV (Human Rights) of the Department of Foreign Affairs, the Swiss Agency for Development and Cooperation (SDC), with the participation of business associations, trade unions and NGOs. It should be accountable to the parliament and have sufficient resources to make on-the-spot investigations, provide arbitration services and monitor the implementation of the agreements. Lastly, in all cases of complaints, it should produce a substantive final report that sets out clear recommendations and identifies any infringements of the Guidelines.

Further reading: www.oecdwatch.org

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[1] CIA estimate: The World Factbook

Four reform proposals

The formulation of the OECD Guidelines for multinational enterprises is general and flawed. The review began in June and provides an opportunity to improve on them and better regulate the activities of multinationals that have social and environmental impacts. Alliance Sud is of the view that the Swiss Government should promote four reforms in particular:

- A special chapter on human rights is needed that incorporates the concept of due diligence formulated by the UN Special Representative for Human Rights, John Ruggie. Due diligence binds companies to look into the possible negative human rights implications of their activities in order to avert them or eliminate any abuses.
- the validity of the Guidelines should be extended to all suppliers and subcontractors.
- accounting must be made more transparent and tax manipulations avoided, by requiring multinationals to do country-by-country reporting.
- procedures in the event of complaints should be structured such that those affected can play a more active part in the process and fair and transparent proceedings are guaranteed.

Michel Egger

Bruno Stöckli

Restitution of stolen assets
Millions transferred – the crux of the matter

The Swiss parliament is currently discussing a new law on the restitution of stolen assets. But how can it be ensured that the money in fact benefits the populations that have been robbed? Experience from Switzerland's debt reduction programme offers a viable solution.

Over the past 16 years, Switzerland has repatriated 1.7 billion Swiss francs in stolen assets to countries in the South. More stolen billions are presumably still sitting in Swiss numbered bank accounts. Officially, these funds are to be given back to the people who have been robbed.

But how is this to be done? The draft law on the restitution of stolen assets, discussed in the summer session of the Upper House and now headed for the Lower House in the autumn, offers no convincing answer to this question. What is also still unclear is what should happen if the country concerned does not request judicial assistance – whether because of the continuing influence of the dictatorial clans or because the government is not interested in «restitution to the people» but wants to use the monies otherwise.

Difficult «restitution to the people»

Often, «restitution to the people» is anything but simple. If in the country concerned, for example, the support goes to projects that are already foreseen in the budget or are being financed via other channels, the additional benefit is nil. At worst, this could «free up» funds which are not invested for the benefit of the people (but for example in military build-ups or other nonsensical projects) or which find their way into accounts in offshore centres.

Thus, there is no certainty as to what has become of the 1.7 billion repatriated by Switzerland and the extent to which the populations have in fact benefited from those funds. In the case of the roughly 500 million dollars of «Abacha funds» that went back to Nigeria in 2005, Switzerland entrusted a Nigerian coalition of non-governmental organisations with the monitoring. That was a first step in the right direction. This monitoring did indeed reveal that a considerable part of the funds had not benefited the population.[1]

Counterpart funds – a success story

The case illustrates that it is not enough to charge independent organisations «retrospectively» with the monitoring process. Precisely in states that have no transparent budget, civil society organisations must be included in all phases of the restitution process. This however calls for a suitable mechanism. In that connection Switzerland could learn from the concept of the counterpart funds being implemented under the Swiss debt cancellation programme.

In 1991 the Swiss Confederation celebrated its 700th anniversary. The parliament used the occasion to approve an additional 700 million francs for debt reduction and environmental projects in the South. In so doing it was acceding to the petition «Development needs debt relief» for which the aid agencies had collected 250,000 signatures.

How should these sums be used however? How to ensure that the debt cancellation measures did in fact contribute to reducing poverty and benefit the poorest population groups? The monies could have been transferred directly into state coffers (as a contribution to the budget for development or poverty reduction programmes). Or it could have been disbursed through the Swiss Agency for Development and Cooperation (SDC) and the State Secretariat for Economic Affairs (Seco). Those responsible for the debt reduction programme decided on a third option: a proposal put forward by the aid agencies to create bilateral counterpart funds locally (see the short article on page 9).

«Often, 'restitution to the people' is anything but simple.»

Target group-oriented and flexible

At the end of 2009 the last of these 12 counterpart funds was closed. The external final evaluation attested that all the funds had performed well in reaching the target groups. It showed no evidence of mismanagement or misappropriation. Compared with other development assistance programmes, the funds operated with the highest degree of cost efficiency: over 90 per cent of the resources went into projects. Admittedly, most of the funds had to learn the hard way in

Counterpart fund project in Upper Egypt: ESDF supported farmers in irrigating their fields themselves and circumventing corrupt officials. (Photo: Bruno Stöckli)

the beginning and it took longer than expected for them to identify the fields and projects in which to invest. Yet that patience has paid off.

What do the experiences with the debt reduction programme show? First, that the funds make it possible to establish a direct link between debt cancellation and poverty reduction. The funds proved to be effective instruments for channelling considerable additional amounts on a targeted basis: the fund in Egypt (ESDF) alone financed grassroots projects worth 100 million francs.

A second insight is that funds are not all the same. None of the 12 debt reduction funds resembled any other. Development funds are adjustable channels of funding that create scope for customised solutions and innovative projects. Lastly, the funds are ideal for including civil society forces in formulating, deciding and implementing projects and programmes. As such, not only do they ensure that the monies reach the right places, but they also promote the much-vaunted «multi-stakeholder dialogue» on a small scale.

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[1] See http://www.aktionfinanzplatz.ch/pdf/en/PEMFAR_SHADOW_REPORT_EN.pdf

Flexible and locally oriented
Counterpart funds in practice

In the mid-1990s Switzerland negotiated the conditions for bilateral debt relief with 12 governments in the South (debts under the export risk guarantee scheme). Switzerland offered to renounce its claims completely. In exchange, the governments in the South were to pay a portion of the debts as a «counterpart» into a bilateral fund that was to finance poverty reduction projects. This counterpart share was higher for «richer» developing countries than for poorer ones (Egypt, 60 per cent of claims, Zambia, 8 per cent). Altogether, the 12 counterpart funds allocated almost 300 million francs for poverty reduction.

The way the money was distributed was decided locally and in accordance with the conditions prevailing in the country. Local NGOs were involved in the decision-making process, including, from the Swiss side, the Debt-for-Development Unit of Alliance Sud, a division funded by the Confederation. The outcome was 12 funds with vastly different funding instruments. Senegal and Côte d'Ivoire opted for micro-credits and the promotion of small businesses; in Egypt the funds went to environment-friendly infrastructure projects in marginal areas, whilst Latin American funds supported social projects.

A body consisting of representatives from both countries was responsible for seeing to it that the funds were used as intended. A technical committee was charged with examining, selecting and steering the projects, and as a rule consisted of local representatives from NGOs, the private sector and the line ministries concerned. The inclusion of civil society has paid off. In Senegal for example, the counterpart fund is now a foundation in which NGOs, private sector and government are represented and which thus also functions as a platform for dialogue.

Bruno Stöckli

Mark Herkenrath

Developing countries and world economic crisis
Massive setbacks

An initial interim assessment shows that the developing countries are suffering just as much as the industrialized countries from the consequences of the world economic crisis. The hardest hit are highly world-market oriented export countries.

The worldwide economic crisis is still far from over. If until just recently there was talk of an early recovery, the forecasts have again become more cautious since the dramatic deterioration in Greece's economic situation. It is therefore still too early to reliably assess the long-term economic and social impact of the crisis on developing countries.

Some international organizations have nevertheless published initial assessments of the crisis-ridden year 2009. The findings are worrying. They show that despite considerable regional differences, the poorer countries have on average suffered just as considerable economic setbacks as the industrialized countries. Moreover, for them the economic crisis has quickly become a crisis of poverty. The latest UN estimates are that over the past year the crisis has already plunged 50 to 80 million people into deep poverty in developing countries.

North-South comparison

At first glance, the developing countries seemed to have weathered the global recession relatively well. World Bank figures show that their average economic growth for 2009 was marginally positive, thus contrasting starkly with the negative growth rates in industrialized countries (see table). If we exclude the two economic giants China and India, however, the economic output of the poorer countries has declined just as sharply as that of the wealthy industrialized countries. By UN estimates, only in 14 countries did per capita income grow strongly enough to make possible urgently needed progress in combating poverty. In southern Africa, average income even contracted again for the first time in 10 years.

A comparison of 2009 and 2007 growth rates is also revealing. It shows that last year, economic growth in developing countries fell behind the pre-crisis figure by all of 6.4 percentage points. Leaving China and India aside, the difference is even 8.9 points as compared to «just» 5.9 in the industrialized countries. The growth declines vis-à-vis the period before the crisis are therefore clearly greater in the South as a whole than in the countries in which the crisis began. Yet numerous industrialized countries, including Switzerland, have taken the crisis as an opportunity to postpone urgently needed increases in development assistance indefinitely and even to cut spending.

The countries hit particularly hard by the crisis are those developing countries that have followed the recipes of the International Monetary Fund and the World Bank in recent years and geared their economies towards export production by large foreign corporations. In Latin America for example, goods and services exports, which go largely to the USA, declined by over 11 per cent in 2009, and net inflows of foreign direct investment by as much as 21 per cent. In the export-oriented East Asian developing countries, it is only the comprehensive stimulus programmes and relatively steady import demand from China that have managed to ward off massive economic reverses comparable to those in Latin America.

Thus, an important lesson from the crisis is that developing countries should no longer be forced into greater integration into the world economy. Rather, they should be given more support in ensuring that income is distributed more fairly and in strengthening their domestic markets. This better prepares them to withstand crises and goes much further to promote their social development and reduce poverty.

Growth rates of gross domestic product (in %)

	2007	2009	Difference
World	**3.9**	**-2.2**	**-6.1**
High-income countries	2.6	-3.3	-5.9
Developing countries	8.1	1.2	-6.9
Less China and India	6.2	-2.2	-8.4
Latin America and the Caribbean	5.5	-2.6	-8.1
Middle East and North Africa	5.9	2.9	-3.0
Eastern Europe and Central Asia	7.1	-6.2	-13.3
Sub-Saharan Africa	6.5	1.1	-5.4
South Asia	8.5	5.7	-2.2

Source: World Bank, Global Economic Prospects 2010, p. 3

Isolda Agazzi

Free trade agreement with India
Industrial tariffs – the stumbling block

The negotiations between Switzerland and India on a free trade agreement are marking time. The reason for this is Switzerland's demand for the full liberalization of the trade in industrial goods. The Indian government and the Confederation of Indian Industry reject this because it jeopardizes many small industrial enterprises.

«Some sectors of the Indian economy are only just beginning to develop. They need time to be able to stand up to foreign competition. If we deregulate the markets now, they will not be competitive,» said Pritam Banerjee, Head of Trade and International Policy at the Confederation of Indian Industry (CII), in an interview with Alliance Sud. «The companies chiefly concerned are those in the chemical, machine building, food industries as well as subcontracting firms such as auto parts manufacturers. In India there are numerous highly labour-intensive small and medium-size enterprises active in those industries, and they would be hit very hard by joblessness.»

The Confederation of Indian Industry is the foremost umbrella organization of Indian industry. It was founded in 1895 and today has a membership of 8100 organizations, which in turn represent 90,000 companies, including many small and medium-size enterprises as well as all the major groups and multinational industrial concerns in the country.

Controversial product schedule

Since 2008 Switzerland has been negotiating a free trade agreement with India in the framework of the European Free Trade Association (EFTA). The EU also launched negotiations shortly thereafter. If EFTA had been the priority in the beginning, today the agreement with the EU seems to take precedence, the large EU market being much more attractive to the Indian economy.

One snag in both negotiations is the deregulation of the markets for industrial goods. In September 2009 India presented Switzerland with a list of products for exemption from customs tariff reductions. They make up some 30 per cent of the trade in industrial goods between both countries and include chemicals, machinery and watches.

Since then the talks have been at a standstill. Pritam Banjeree is formal: «In principle we are in favour of free trade agreements. They afford us greater access to the markets of industrialized countries. Our uppermost interest is to export services (IT, skilled human resources, accounting and law) as well as textiles and manufactures. We are nonetheless keen to protect our agriculture and industry.»

Industrial tariffs the joker?

India's tough stance on industrial goods is surely born of its concern for its still infant industries. Nevertheless, it may yet serve as a joker to extract concessions in another dossier that is also very near and dear to it and in which Switzerland is giving absolutely no ground: the free movement of people.

Will the Indian government maintain its ground? «That is hard to predict», Pritam Banerjee admits. «But neither can they simply disregard the demands of powerful interest groups such as farmers and industrialists. The list of exceptions presented by the Indian Government is the outcome of several meetings with business people, farmers, trade unionists and non-governmental organizations», the representative of Indian industry explains.

Customs duties mean revenue

In 2009 Switzerland imported industrial goods from India to the tune of 728 million francs. In turn it exported over 2 billion francs worth of products to the Indian subcontinent. It levied an average 2 per cent duty on those imports, which amounted to 8.2 million francs in revenue. However, Switzerland collects duties ranging from 9 to 13 per cent on textiles and clothing, which are very important products for India. India imposes on average 10 per cent import duty on industrial goods, which means that its imports from Switzerland brought in roughly 200 million francs.

The free trade agreement is intended to dismantle tariffs altogether, though India would be accorded a longer transition period. Eliminating tariffs is a threat not only to still fledgling and largely uncompetitive industries, but it also causes substantial revenue losses. Since the introduction of the new liberal economic policy in 1991, customs revenues have declined by 20 per cent in comparison to other charges. Despite this, they still accounted for 11.4 per cent of government revenues in 2008/09.

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