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Green economy: The new buzzword leaves much open

For two years now the «green economy» has been the subject of international debates. It is expected to help overcome the current economic and climate crisis. The green economy will also be at the heart of the 2012 UN «Rio + 20 Summit», which will build on the 1992 Earth Summit. At that time the concept of «sustainable development» found its place in the lexicon of politics and economics. Yet this has had no major impact, as is now being demonstrated by the twofold crisis. Will the «green economy» yield more in the future?

When the financial markets collapsed in 2008, many governments reacted with economic stimulus programmes and bank bailouts. From the very beginning civil society had called for these stimulus programmes to be used as the jumping off point for managing the climate crisis. To achieve a Green New Deal, renewable energies should be promoted, the building stock drastically improved, or public transport systems expanded, for example. That would create new jobs, stabilize demand whilst helping to combat global warming.

In the autumn of 2008, the International Labour Organization (ILO) published a study entitled Green Jobs – towards decent work in a sustainable low-carbon world. The study warns that owing to productivity gains and more dying industries, 500 million new jobs would have to be created by 2020. This would be helped by vigorous «greening» of the economy. The requisite political support is lacking, however. The United Nations Environment Programme (UNEP) took up this theme and, in agreement with the other UN agencies, published an appeal to the G20 to devise economic stimulus measures along the lines of a Green

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Partnerships with the private sector

The Swiss Agency for Development and Cooperation (SDC) has been working with individual Swiss companies for a long time now. With respect to the new message from the Federal Cabinet regarding development cooperation (2013-2016), discussion is now underway on how to strengthen this cooperation systematically in various SDC thematic areas. This is so not least of all because the Foreign Ministry attaches great importance to the new line of action. The discussion includes for example the new theme of «Financial services for the poor», which could be developed together with Swiss banks and insurance companies.

The potential developmental input of such programmes must be assessed from case to case. When we take stock of the situation up to now, we can find meaningful as well as questionable examples. A meaningful example was, for instance, the «Swiss-South African Cooperation Initiative» under which subsidiaries of Swiss multinationals in South Africa are providing vocational training opportunities for young people. Questionable on the other hand is the benefit of the guidelines for public-private partnerships in water supply systems that were jointly worked out together with the State Secretariat for the Economy (Seco) and Swiss Re, and pushed at international occasions such as the World Water Forum.

Two caveats are necessary, however. Swiss multinationals invest virtually nothing in the poorest countries. They prefer developing countries with more sizeable domestic markets and stronger regional positions, for example South Africa. Contrastingly, under the development law, SDC and Seco are or would be compelled to invest the bulk of their budgets in the poorest countries. That does not completely rule out cooperation with Swiss firms, but does nevertheless show that only small amounts should be invested in such partnerships.

Second, everyone agrees that enterprises play an important role in the economic development of poor countries. But not just any enterprise: rather than foreign direct investment and hence our multinationals, it is local enterprises that are decisive. Seco's development aid has focussed on promoting local enterprises for over 15 years now since it stopped using development funds to help Swiss firms to secure contracts and new markets. SDC too has programmes to promote local enterprises, though their number is declining. It would be incomprehensible were this track now to be replaced by cooperation with Swiss multinationals.

Peter Niggli,
Director

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New Deal.[1] And the G20 Summit of April 2009 did indeed posit that the stimulus packages should also «accelerate the transition to a green economy».

Much talk, little action

Yet the G20 members barely heeded this call. Only South Korea designed its stimulus programme as a green new deal. UNEP calculations are that 80 per cent of its funds went towards green economy measures. China for its part spent one third, whilst the USA or Germany barely surpassed one tenth of their expenditure. Besides, in many instances, «green» measures were combined with others that contribute to global warming – Germany's car-scrapping premium, for example.

Because the concept of a «green new deal» is reminiscent of Roosevelt, Keynes and the creation of the western welfare state, in other words, of what western economic elites and the political mainstream have resisted for the past 30 years, international agencies soon came up with more innocuous terminology. The OECD speaks of «green growth». And in December 2009, the UN General Assembly approved the terms of reference for the Rio + 20 Summit, the work of which is to centre on «a green economy in the context of sustainable development and poverty eradication». Next year the OECD will be positioning itself for the Rio + 20 Summit with a «Green Growth Strategy».

Industrialized countries §lack clear line

Two developments obstructed the productive linking of the economic and climate crises: the failure of the climate negotiations in Copenhagen at the end of 2009, and the debt crisis of western countries. Today, no western government is willing or able to roll out additional economic stimulus packages. The near future will instead be defined by austerity policies. One could still assume in 2008 that moves towards a green economy would be made possible, first by economic stimulus programmes, then mandatory thanks to emission reduction obligations and financing mechanisms under a climate convention. Such is no longer the case today. When western governments now talk about the green economy they do so not knowing how the adjustment is to be tackled and funded.

Cover photo: Saihanba wind farm in Chifeng (China). (Photo: Simon Lim / Greenpeace)

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[1] At the end of 2009 UNEP launched the Green Economy Initiative. It is keen to help governments transitioning to a greener economy.

Unlike in the industrialized countries, in China investment in renewable energies is booming: Headquarters of the Himin Solar Energy Group in Dezhou, China's «Solar Valley». (Photo: Keystone)

A dispute that recently erupted between the USA and China illustrates the problem. Since the onset of the crisis, investment in renewable energies in leading western countries has plummeted. To this day US companies in the sector face enormous difficulties in obtaining credits. In contrast, that sector is booming in China. At the 2010 World Economic Forum western industry leaders complained that Chinese industry would become the world market leader and overtake the West in the spheres of renewable energies and green technologies. Yet politicians in the USA are now complaining that China's lead has resulted from unfair competition in that the companies concerned have been systematically subsidized by the state in China. The United Steel Workers union has even called on the Obama Administration to file a case at the World Trade Organization (WTO) to challenge this. Yet this was precisely the idea behind the Green New Deal – using public funds to promote renewable energies and green technologies. «Market forces» alone will not do it.

Hopes of a possible fresh start are now pinned to the Rio + 20 process. The chances of such a fresh start would be considerably enhanced if the climate conference scheduled for the end of 2011 in South Africa could produce an agreement with some amount of bite.

«What the world does not need is a rhetorical smokescreen that merely masks the continuation of unsustainable policies and economics.»

Two fundamental questions are accompanying the debates on the green economy. First, what is the situation regarding the right to development? And second, how green can growth be?

Developing and emerging countries fear that a global «green economy» regime could be used to cement existing development disparities and hamper their catch-up industrialization. This criticism picks up on the contentious issues in the ongoing climate negotiations. In the view of developing countries, the industrialized ones should make the first decisive moves to transition to low-carbon energy supplies and the corresponding production processes. They should also support developing countries financially and technologically in making their transition. What is more, 1.5 billion people in the poorest countries still have no access to electricity but should obtain such access if poverty reduction is being taken seriously.

Anxieties of developing countries

Developing countries are moreover wary of «green» protectionism by means of punitive tariffs on products obtained using traditional power generation and production methods. In its climate bill the US Congress had indeed contemplated

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Rio+20 preparations with Federal President Micheline Calmy-Rey

This summer the UN Secretary-General appointed a High-Level Panel on Global Sustainability charged with formulating a comprehensive policy report by the end of 2011 on the main topic of the Rio + 20 Summit. It is comprised of 21 persons from all the continents and co-chaired by the Presidents of Finland and South Africa. Along with Gro Harlem Brundtland, it includes eminent persons who had already substantially influenced the 1992 Rio Summit, as well as newcomers such as Swiss Federal President Micheline Calmy-Rey. The panel is expected to examine a «new development paradigm» and identify avenues towards a low-carbon economy, greater economic stability, reduced poverty and more sustainable consumption and production methods. Special attention should also be paid to the development possibilities open to poor countries in a new green economy. Jörg Frieden (SDC – Swiss Agency for Development and Cooperation) is Calmy-Rey's Sherpa for the work of the panel.

Peter Niggli

Isolda Agazzi

Bilateral trade agreements
Labour provisions *à la carte*

The European Free Trade Association (EFTA) has approved model provisions for integrating environmental and labour standards into free trade agreements. Despite being incomplete and non-binding, the private sector rejects them.

The negotiations with China will show just how seriously Switzerland takes labour and human rights clauses in trade agreements: Woman sews toys in Shanghai. (Photo: Keystone)

Only after much criticism and delay has EFTA (its members are Norway, Iceland and Liechtenstein along with Switzerland) begun to address the issue of trade and human rights. This summer it adopted model provisions on trade, environment and labour standards.

Its chief competitors have long implemented such provisions. The USA goes the furthest: a human rights infringement could elicit a punitive fine or even the suspension of an agreement. In early August for example, Washington filed a complaint against Guatemala. The country had allegedly violated labour union's rights and as such had breached the bilateral agreement. If the consultative process does not succeed, Guatemala could face an annual fine of 15 million US dollars.

The EU relies more on the carrot than the stick. «We have included provisions on human rights and labour standards in all our free trade agreements», said EU representative John Clarke at the Public Forum of the World Trade Organization (WTO) mid-September in Geneva. «This indicates that the contract is based on respect for human rights. If they are violated, the ultimate result could be suspension. This is a very rare occurrence, however, in the event of a coup d'etat, for example,» Clarke added.

The EFTA provisions on environmental and labour standards are not binding, they are mere proposals. The section on «Trade and Sustainable Development» does indeed state that partner countries would have to observe multilateral environmental agreements and the core labour standards of the International Labour Organization (ILO) (freedom of association and collective bargaining, abolition of all forms of forced labour, abolition of child labour, eliminating discrimination in the workplace). In addition, partner countries may not water down the environmental and labour provisions in order to attract investment or obtain a competitive advantage. But here too they are recommendations, not prerequisites for the signing of contracts.

Voluntary and non-binding

The provisions are considered differently, depending on the contract and partner, says Martin Zbinden, Head of the Free Trade Agreements/EFTA Division at the State Secretariat for the Economy (Seco). «There is rarely an all-or-nothing approach to negotiations. Some countries have ideas similar to ours regarding environmental and labour standards, others have an entirely different approach», says the top-level official.

Marlies Bänziger, Member of Parliament for the Greens, and a member of the Parliament's EFTA delegation, regrets Switzerland's reluctance. Yet she is not surprised: «Speaking at Parliamentary question time, Doris Leuthard [Minister for the Economy until recently] told me frankly that there was nothing one could do if our partners did not want such provisions.»

Every free trade agreement provides for a mixed commission that monitors implementation of its provisions, including those on sustainable development. Seco represents Switzerland on the commission. Martin Zbinden assures us that any party, whether an NGO, company or embassy, that observes a breach of the agreement can report it to Seco, even though this is not formally provided for. If the mixed commission cannot agree on the existence of a breach, it may conduct further consultations. But what if those too should fail to produce agreement? «We always try to find joint solutions,» says the top official. «To date we

«On the very eve of the signing, the Swiss business association Economiesuisse called on EFTA bodies not to hamper free trade.»

have never had to turn to arbitration, not even in a case where an agreement expressly provides for it.»

Private sector criticism

Despite their shortcomings and inadequacies, business organizations have been critical of the EFTA provisions. On the very eve of the signing (end of June 2010), the Swiss Business Association Economiesuisse called on EFTA bodies not to hamper free trade or impose any standards on it. The Swiss private sector does not have much to fear: Bern does not intend to go the whole way with respect to labour and environmental standards. «These provisions represent a starting point for the way we formulate them in all dossiers,» says Seco's Zbinden. «We then negotiate chapter by chapter and in the end we see whether or not the agreement as a whole reflects our interests.»

Avoiding tokenism

It is also unsatisfactory for EFTA provisions to include only the ILO core labour standards and environmental agreements, but not all human rights. The latter are only mentioned in a non-binding manner in the preamble. Another article notes in general terms that a free trade agreement must not be contrary to other international agreements, and makes reference to human rights in that connection.

«If we compare the EFTA provisions with those of the partnership agreement between the EU and Caribbean countries (Cariforum), a major difference becomes clear,» says Member of Parliament Bänziger. «The Caricom Agreement is much more ambitious.» She welcomes the EFTA initiative. «It is an initial step in the right direction. But the standards must now be implemented and enforced through the agreements and not just proposed as an option,» says the Green party trade expert. Considering today's challenges such as climate change or migration, it is not acceptable for trade to overlook labour and environmental standards, she says.

The EFTA provisions on environmental and labour conditions must effectively be prevented from becoming mere tokenism. Switzerland should work within EFTA and in the negotiations it conducts to ensure that they are made binding and are extended to all human rights.

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punitive tariffs on imports from developing countries that were not subject to the same climate regime as the USA. Since the Democrats withdrew the bill and the Republican climate deniers won the mid-term elections, this prospect has disappeared.

The second contentious issue is being raised by civil society groups. Their view is that western governments and economic circles make the erroneous assumption that limitless economic growth can be divorced from the depletion of non-renewable energy sources and raw materials. So far, each efficiency gain in energy and raw material usage has been offset by increased consumption. In addition, the «dematerialization» of western «knowledge-based societies» has only come about because many industries, and indeed the dirtiest of them, have been transferred to developing countries. Hence the current spirited debate in the USA and Western Europe as to how western countries may not only transition to the green economy but also get out of growth.

Fuzzy concepts

One may well wonder how governments understand «green economy». At the centre of South Korea's Green New Deal is the building of another 10 nuclear power plants for example – renewable energies are still being neglected. Resource efficiency is at the forefront of the Swiss Cabinet's declaration of intent regarding the green economy issued in October. If it refers to energy resources, then the motorization of Switzerland, the concomitant energy-intensive urban sprawl and the like can continue at the same level of energy consumption. Alongside the «green economy», Germany, Japan and the USA are pursuing an active policy of securing raw material supplies, in particular the last remaining petroleum and natural gas reserves.

From a developmental standpoint there can be no objection to a fresh start to sustainable development under the «green economy» label. As the first run shows, however, much remains open. What the world does not need is an internationally negotiated rhetorical smokescreen that merely masks the continuation of unsustainable policies and economics that promote global warming, the over-consumption of raw materials, and conflicts in societies and between countries. A few months still remain before the Rio + 20 conference in which to avert this.

Further reading:
http://www.earthsummit2012.org
http://www.unep.org/greeneconomy
http://www.degrowth.net

Isolda Agazzi

Free Trade Agreement with China
Focusing on human rights

Switzerland is to start negotiating a bilateral Free Trade Agreement (FTA) with China as of early 2011. Swiss development and human rights organizations are calling on their government to ensure that this agreement respects and promotes human rights. Swiss companies cannot be allowed to profit from China's low human rights standards.

In August 2010, Swiss President Doris Leuthard and Chinese President Hu Jintao agreed on the roadmap for a joint free-trade agreement. The negotiations will begin in early 2011. The agreement is expected to secure further competitive advantages for Swiss exporters.

China is already an important partner to the Swiss economy. Along with the EU, Japan and the USA, Switzerland is amongst China's four leading trading partners. In 2008, Switzerland's goods exports to China were worth CHF 6.1 billion and its imports some CHF 5 billion. This makes it one of the few countries running a trade surplus with the Middle Kingdom. Swiss investors are also very active there. According to the business association Economiesuisse, over 300 Swiss firms together have more than 700 subsidiaries in China and employed close to 120,000 people in 2008. Economic relations are to be further expanded thanks to the free trade agreement.

Human rights left out

But trading with China has its pitfalls: there are massive human rights violations, and working conditions for migrant workers, for example, are often scandalous. Rebiya Kadeer, renowned human rights activist and President of the World Uighur Congress for example has been calling attention for years to the scandalous exploitation of single Uighur women workers in the sweatshops of the coastal region. Whoever unhesitatingly does business with a country known for human rights violations becomes an accomplice to those human rights violations.

Even WTO Chief Pascal Lamy recently admitted that trade rules could have human rights implications and that market opening creates winners and losers. When it comes to trade, the particularly sensitive issues are the right to food, health, employment and decent housing. A State that enters into agreements with a partner country must ensure that these rights are not infringed but guaranteed. Failure to do so means breaching its extraterritorial obligations to safeguard human rights.

With regard to the negotiations with China, the focus should be on the following labour and human rights:

- The core labour standards of the International Labour Organization (ILO). China violates several of these rights: (1) The right to freedom of association and collective bargaining is not guaranteed, the formation of independent trade unions forbidden. (2) China does not implement the prohibition of forced labour: at some locations the workers are locked up in factories during the day and in dormitories at night. There are also numerous labour and education camps that produce goods for export. (3) China violates the ban on child labour. NGOs report that this has even increased. (4) China disregards the prohibition of discrimination at the workplace: ethnic minorities and migrant workers in particular are often discriminated against. Their working conditions often do not meet even minimal hygiene and safety standards. (5) The right to food and health. Restrictive rules on the protection of intellectual property (patents) endanger those rights, because they may impede access to affordable medicines and seeds.
- Discrimination against migrant workers through the Hukou system (household registration system). Migrant workers cannot register a fixed place of residence in urban areas. This leaves them defenceless against landlords, employers and local party officials. In concrete terms, this means no access to social services and health facilities, poor working conditions, poor accommodation and no free schooling for children.
- Forced evictions. In order to build large industrial infrastructure projects, the government may resort to expropriation and resettlement. Uighur farmers, for example, are forced to sell their land for very low prices and move to mainland China.
- Discrimination against ethnic minorities such as the Uighurs and Tibetans.
- Death penalty, torture and the violation of freedom of expression. Although they may not be directly related to the Free Trade Agreement, they should still be addressed when negotiating the agreement.

EFTA conditions – no liability assumed

The U.S. and the EU have long incorporated conditions for the fulfilment of human and labour rights (see article on pages 4-5) into their bilateral trade agreements. The European Free Trade Association EFTA (Switzerland is a mem-

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Mark Herkenrath

Tax dodging by multinationals
Zug tricks Ghana

Multinational corporations use accounting tricks to deprive developing countries of billions in tax revenues every year. Using the example of the beverage manufacturer SABMiller, a brand new report from the British NGO ActionAid shows how these tricks work and the ugly role played by Switzerland in the process – and how it undermines a Seco programme in Ghana.

The beverage manufacturing concern SABMiller brews beer in several African countries. Every year it shifts about 100 million francs in profits to foreign tax havens disguised as payments for mostly fictitious services and royalties. A report just published by the British development organisation ActionAid demonstrates this.

According to ActionAid, some 60 million francs of that go to companies domiciled in Switzerland, especially in the Canton of Zug. ActionAid puts the revenue loss suffered by the African countries concerned at about 8 million francs. Altogether they are losing some 20 million francs in tax revenues because of SABMiller's accounting tricks.

There is one particularly striking example in the report. So far this year a subsidiary of the corporation in Ghana has paid the Zug-based company Bevman Services AG 1.5 million francs for services which, according to investigations by ActionAid, were most likely never provided. The corporation thus circumvented the Ghanaian business tax of 25 per cent. All that could be retained by the developing country was the modest take from the withholding tax of just 8 per cent. Under the new double taxation agreement with Switzerland, Ghana is still able to levy that tax on payments for services. The remaining 17 per cent, which after all is about a quarter million francs, is lost to Ghana.

Ironically enough, Switzerland's State Secretariat for Economic Affairs (Seco) is supporting a programme, precisely in Ghana, to enhance the efficiency of the tax system and various measures to improve the investment climate for foreign companies. Seco explains that Ghana urgently needs more domestic revenues in order to reduce poverty. The latest statistics are that about one third of Ghana's population lives below subsistence level. Yet, as long as foreign companies continue to use accounting tricks to transfer their profits to Switzerland, tax reforms and investment programmes will be worth precious little.

A new reporting standard that is now also being discussed in the EU Commission under the designation «Country-by-country reporting» could provide a remedy for these nasty tax tricks by multinational corporations. The corporations should be required to identify the activities for each country separately in their balance sheets. Official Switzerland, however, is resisting this standard. Switzerland does not want to see it included even in the non-binding OECD Guidelines for Multinational Enterprises that are currently being revised.

The British charity Christian Aid estimates that developing countries lose 160 billion francs in revenues each year owing to tax tricks by multinational corporations.

Link to the ActionAid report: http://www.actionaid.org.uk/doc_lib/calling_time_on_tax_avoidance.pdf

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ber) too realised somewhat late that it cannot simply ignore these rights. This summer it adopted model provisions for incorporating environmental and social standards into free trade agreements. The chapter on «Trade and Sustainable Development» specifically states that partner countries should respect the ILO core conventions and multilateral environmental agreements.

The provisions are not binding, however. Besides, they are limited to environmental and labour standards and exclude human rights in general. But the negotiations with China will show whether Switzerland takes requirements regarding environmental and labour rights seriously or merely regards them as bargaining chips.

Alliance Sud, the Berne Declaration, the Society for Threatened Peoples and the Swiss-Tibetan Friendship Society have jointly called on Switzerland to insist, in the trade agreement, not only on the EFTA provisions but also on binding clauses on all human rights. Before the negotiations are concluded, a Human Rights Impact Assessment (HRIA) should be made to gauge the implications of the agreement for these rights. The Parliament and interested organisations should be kept abreast of the progress of the talks in a continuous and transparent manner.

Mark Herkenrath

Regional development banks – the great unknowns
World Banks in miniature

What do regional development banks actually do? This question is also relevant for Parliament, which is to decide on the scale of Switzerland's future commitment.

By next spring the Parliament must decide on two issues regarding Swiss participation in regional development banks. First up for discussion is a contribution towards a general capital increase for these banks, which is needed to maintain Switzerland's quota share and voting rights. The second issue is continued funding for the African Development Bank (AfDB) Group's Development Fund. The monies for this purpose are included in the additional credit line for increasing Switzerland's development aid to 0.5 per cent of gross national income.

Voting majority for developing countries

The activities of regional development banks are not well known, however. Africa's AfDB, Asia's ADB, and the Inter-American IADB often act in the shadow of their «big sister» the World Bank. They provide project lending to developing countries that private banks would furnish only at exorbitant interest rates. The funds come from loan repayments and interest income, as well as from profits on their investments in international financial markets. Besides, private donors regard regional development banks as highly creditworthy. Consequently, the development banks are able to raise funds on international capital markets on very favourable terms, which they then pass on to their customers.

In contrast to the situation at the World Bank, developing countries have a voting majority in regional banks (except at the ADB) and account for most of the executive directors. African countries thus hold some 60 per cent of the voting rights at the AfDB. Furthermore, loans are granted only in the region concerned. Whereas the World Bank is dominated by the interests of the rich industrialized countries, developing countries rightly see the regional banks as «their» banks.

Special funds for the poorest countries

The poorest countries can make very little use of conventional development bank lending, however. Special funds exist for them, from which they are granted very low-interest loans with long repayment periods. In specific cases, these subsidized special funds even provide non-reimbursable project grants.

The proposed increase in development banks' capital stock will not benefit these funds, however, but will instead profit the advanced developing and emerging countries above all. As part of the 0.5 per cent additional credit the Federal Council is therefore also proposing a contribution of 180 million francs to the AfDB's special fund for the poorest countries. If Parliament rejects this additional credit, Switzerland would have to fund this contribution at the expense of bilateral aid.

Problem-ridden mega-projects

In the case of the regional development banks, the snag lies in their strong focus on infrastructure mega-projects. In 2005 the AfDB dedicated almost 40 per cent of its funds to such projects, particularly in the energy and transport sectors. Such projects may indeed serve the overall economy of a country or region and benefit large foreign corporations. But the poor rarely derive any direct benefit. Contributions to regional banks are therefore no substitute for bilateral development cooperation, which aims to improve the living conditions of the poorest.

«Contributions to regional development banks are no substitute for bilateral development cooperation.»

Regional development banks are also criticized for hardly involving the local people in project planning and implementation. Often not even the most basic project information is translated into the local languages. Large infrastructure projects frequently lead to expropriations and evictions and cause massive environmental damage. Moreover, civil society organizations voice the criticism that the affected people have little access to review mechanisms for the purposes of reporting abuses.

Despite guidelines to the contrary, the local population is still often ignored today in mega-projects. In the picture: Bujagali hydroelectric project in Uganda. (Photo: NAPE)

Good guidelines poorly implemented

On paper, the development banks have responded to the criticism. The African Development Bank for example has issued excellent internal guidelines for project screening, consultation with civil society and for dealing with displaced persons. Besides, the Independent Review Mechanism (IRM) used several meetings with local people to raise awareness of its existence and to encourage the filing of project-related complaints.

In reality, however, the problems persist. The involvement of communities and their organizations is still optional. Governments, project teams and regional banks are under no real obligation to address the concerns of the population. Moreover, the practical implementation of the guidelines is flawed. Submissions to the IRM show that only a tiny fraction of the affected population has ever been consulted on several major projects.

Even retrospective complaints have been of little avail. In the case of the Bujagali hydropower project in Uganda, for example, many villages have been forcibly relocated. The latest evaluation report by the IRM indicates that many displaced people have received no compensation and have no access to running water or electricity at their new location. This even though already in 2008 the Independent Review Mechanism had recommended urgent action in that connection.

Switzerland and the African Development Bank

Switzerland is represented at the African Development Bank (AfDB) by a permanent advisor and is an executive director on rotating basis with Germany. It advocates vigorously for the systematic review of development outcomes and a sharper focus on poverty alleviation. The official and publicly available Swiss guidelines for cooperation with the AfDB nevertheless date back to the year 2005 and have now become outdated in significant respects. Parliament therefore lacks an up-to-date basis for assessing the development benefits of Switzerland's contribution.

It is high time these guidelines were reviewed, with the involvement of Parliament and interested organizations. Specifically, Switzerland should also strive to get the AfDB to actually implement its own good guidelines on transparency, the inclusion of the population and possibilities for the filing of complaints. This calls for critical, independent evaluations of the activities of development banks.

Mark Herkenrath

Interview

Final withholding tax – a model for the South?
More money but no transparency

To circumvent the automatic exchange of information Switzerland plans to negotiate a final withholding tax with various industrialized countries. Could this also be a model for developing countries? Alliance Sud News spoke with Mark Herkenrath, a financial expert at Alliance Sud.

Mark Herkenrath (Photo: Daniel Rihs)

Mark Herkenrath, so far you have been somewhat critical of the final withholding tax. Where does the problem lie?

The final withholding tax will anonymously launder undeclared assets and capital gains. That is at odds with our commitment to push for a transparent financial centre. Only greater transparency will enable us to prevent tax evaders from developing countries from finding safe haven in Switzerland. We can only achieve true transparency through automatic information exchange. Additionally, the final withholding tax hinders the progressive taxation of high incomes. Investment income in Switzerland would be taxed at a flat rate. In the home country it would no longer count towards the overall income that is subject to progressive taxation. This is one important reason why the EU Commission continues to focus on the automatic information exchange.

But only few developing countries have a progressive income tax system. A final withholding tax would quickly bring in a lot of money.

That is correct. Alliance Sud estimates the undeclared assets from poorer countries present in banks in Switzerland at no less than 360 billion francs. A final withholding tax of 25 per cent on an average return of 3 per cent – that is the basis for negotiation with Germany – would garner additional annual revenue of about 2.7 billion. This is more than the current level of development aid. A retroactive tax for legalizing old undeclared assets along the lines to be negotiated with Germany and Great Britain would bring them as much as an additional 90 billion.

What other advantages would poor countries derive from automatic information exchange?

It would be highly dissuasive to potential tax evaders, and would also extend to income tax dodgers. The final withholding tax covers investment income alone. If taxable persons abroad wish to evade income taxes in their home country and transfer fees and other income directly to Switzerland, it is of no avail.

Can poorer countries actually meet the administrative challenge that automatic exchange of information would entail?

Sure. The undeclared foreign assets from developing countries are indeed considerable, but they belong to relatively few people in each country. Information about the assets of these people will not produce an unmanageable flood of data as the financial industry often asserts. Moreover, the tax authorities would exchange the information in a standardized format that is easy to evaluate. This is also how it is done in the EU where information exchange has long existed for certain taxes.

To lighten the administrative load on developing countries, the OECD has developed a model treaty for Tax Information Exchange Agreements (TIEAs). What is Switzerland's position in this regard?

To help poorer countries fight tax evasion the OECD has devised what are known as Tax Information Exchange Agreements (TIEAs). Compared to the double taxation agreements they have the advantage of not also covering taxes on royalties and on dividends from foreign investments. The OECD is now negotiating such TIEAs with several developing countries on behalf of several industrialized countries.

So far Switzerland has not taken part. Nor has it signed the revised Council of Europe/OECD Convention on Adminstrative Assistance in Tax Matters, which is now open to accession by developing countries. It continues to focus on

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Farewell to Rosmarie Bär
A sustainable commitment

Rosmarie Bär (Photo: Daniel Rihs)

Rosmarie Bär, my colleague and long-time political companion, retires at the end of this year. In 1996 Rosmarie took over our international environment and climate policy desk. For 14 years she has been our memory for the numerous international sustainable development processes triggered by the 1992 UN Earth Summit in Rio de Janeiro. In official Swiss delegations, where she has vigorously represented Alliance Sud, she had increasingly become the only person in recent times able to remind the delegation about former official stances. This makes Rosmarie both a valuable and an uncomfortable presence.

From 1987 to 1995 Rosmarie Bär was a prominent Member of Parliament for the Green Party. She was part of the powerful women triumvirate or maternate that left its mark on the Green parliamentary group during that period. That she would subsequently join the Alliance Sud team, with no airs and graces, no special claims and for equal pay was not a matter of course – yet for her it was.

In recent years Rosmarie has been dealing with water shortage, the processes emanating from the Rio 92 Conference and with global warming. In the years 1999/2000 the privatization of public water supply systems reached its peak, and private water companies were hoping to gain a foothold in Switzerland as well. That was resisted by the Working Group called «Water – a public good», which she had built up for Alliance Sud. In the international arena, she joined ranks with European and North American NGOs to push the idea of a UN Water Convention, which did not materialize after all. Instead the discussions shifted towards introducing a human right to water at the United Nations. Lastly, Rosmarie followed the endeavours to conclude a climate convention to replace the Kyoto Protocol in 2012, and the ongoing revision of the CO_2 law in Switzerland.

In all these fields Rosmarie witnessed the deterioration rather than improvement of key environmental indicators. Rosmarie found it hard to digest the fact that the two decades of «sustainable development» have manifestly failed to yield sustainable outcomes.

We hope that in the future Rosmarie will be able to dedicate more time to cultivating her extensive circle of friends and to continue her involvement in a fitting manner.

Peter Niggli
Director

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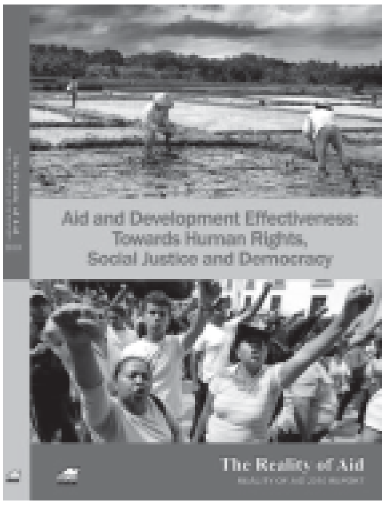
double taxation agreements in which it endeavours to lower tax rates on gains from Swiss direct investment and on royalties.

Switzerland has repeatedly stated its readiness to extend the savings income taxation agreement with the EU to developing countries. But so far no country has shown any interest.

Switzerland has not actively promoted and publicized this offer. Many developing countries may well be unaware of it. In the coming months Alliance Sud will again bring it to the attention of the representations of several countries. We also intend to inform civil society organizations in the South. It often takes pressure from below to prompt governments to actively fight tax evasion by its rich citizens.

Interview: Pepo Hofstetter

The Reality of Aid Report 2010
Aid and Development Effectiveness



As official development assistance (ODA) falls and donors break their promises of more and better aid to poor countries, the Reality of Aid (RoA) Network highlights the limitations of the aid effectiveness reform agenda and calls for a bolder approach to development cooperation in its new report titled «Aid and Development Effectiveness: Towards Human Rights, Social Justice and Democracy». RoA is a nonprofit initiative of Northern and Southern NGOs focusing on poverty reduction and development assistance.

Reality of Aid Report 2010. Aid and Development Effectiveness: Towards Human Rights, Social Justice and Democracy. IBON Books (Quezon City). 297 pages. www.realityofaid.org

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