

multilateral accent

Information of the Swiss Agency for Development and Cooperation SDC
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Editorial

The negotiations leading to the new framework for financing sustainable development – the Addis Ababa Action Agenda (AAAA) – were long and slow in progressing. This is understandable, given that what was at stake was nothing less than the financial and political basis for achieving sustainable development globally. The fact that an agreement was ultimately reached on such far-reaching topics as structuring government debt and international tax cooperation can thus be regarded as a major multilateral success. The Addis Ababa agreement paved the way for a successful conclusion of the negotiations on the 2030 Agenda and the global Sustainable Development Goals two months later in New York.

Switzerland played a key role in making this breakthrough possible. Right from the outset, it insisted that the AAAA should be a comprehensive, forward-looking framework that takes equal account of all financial flows – public and private, domestic and international. Switzerland also ensured that important cross-cutting themes such as the environment and gender equality were embedded in every section.

It is now up to all of us, i.e. everyone involved in international cooperation – including Switzerland's priority multilateral organisations, the countries of the North and South, civil society and the business world – to put the principles set out in the AAAA into practice and enable sustainable development on a global scale.

Nicole Ruder
Daniel Birchmeier

An agenda for financing development



Science class in Ethiopia. Official development assistance remains a mainstay of funding for sustainable development. Photo: UN/Eskinder Debebe

In July this year, a United Nations agenda aimed at mobilising resources to support the 2030 Agenda for Sustainable Development was unanimously approved in Addis Ababa. It can be summed up in three words: tax, investment and aid.

Will there be sufficient resources channelled to finance the Sustainable Development Goals (SDGs) adopted by the UN in September? The member states assume that there will be, and the AAAA sets out their roadmap. The result of international negotiations that concluded at the International Conference on Financing for Development held in Ethiopia in July 2015, the AAAA is the third UN document on this subject after the Monterey Consensus of 2002 and the Doha Declaration of 2008. While based on the two prior documents, it reflects a paradigm shift towards taking account of the SDGs. The SDGs and the AAAA together form a new framework that “aligns all financing flows and policies with economic, social and environmental priorities and ensures that

financing is stable and sustainable”, according to a summary of the agenda by the UN's Department of Economic and Social Affairs (DESA).

The cornerstones of financing remain unchanged, but they are now clearer and better structured. These are official development assistance, private investment and ‘domestic resources’, an innocuous term covering what proved to be the most controversial topic throughout the conference: international cooperation in tax matters. Other topics discussed were debt management and international trade.

Official development assistance

Official development assistance (ODA) amounts globally to USD 135 billion a year. Donor countries have said that they want to allocate 0.7% of their gross national income to ODA. The AAAA insists that ODA is 'crucial'. It must be channelled as a priority towards those countries with the least capacity to mobilise other resources, i.e. the poorest and most fragile. The AAAA specifies that this aid is 'complementary' to domestic resources. It also stresses the need for 'effective international aid', including both concessional and non-concessional financing.

ODA must also strengthen its role as a means of leverage for mobilising additional resources, be they public or private, much like regional development banks and the World Bank – whose importance is emphasised by the AAAA – are doing.

The private sector

One fundamental trend that is taking shape is the private sector being called on to play a greater role with regard to the SDGs, in particular in the area of infrastructure. The World Bank estimates that investments of USD 1,500 billion are needed here annually. Private-sector commitments are considered to be crucial in creating jobs and generating tax revenues. Multilateral development banks will continue to play their part as a catalyst in this domain. "We call on businesses to apply their creativity and innovation toward solving sustainable development challenges," notes the AAAA. In a critical commentary on the outcome of the conference, Oxfam International Executive Director Winnie Byanyima referred to this as "handing over development to the private sector without adequate safeguards".

The agenda, for its part, mentions measures for encouraging the private sector while aligning "incentives with public goals, including incentivising the private sector to adopt sustainable practices, and foster long-term quality investment". All of this must be done in compliance with international norms. Switzerland supports this approach.



Access to technology, such as that provided by a mobile network in Myanmar, requires a diversity of funding sources. Photo: Lester Ledesma/ADB

Domestic resources

All the countries agree that the financing of sustainable development requires mobilisation of domestic resources. This wording covers all measures aimed at increasing national financing capacities. It refers in part to the revenues developing countries can raise by enlarging their tax base, including in the informal sector, by implementing transparent and efficient administration or simplifying the arrangements for paying tax. Consolidating an effective banking system is also part of it. International cooperation already under way in all of these areas must be reinforced. At present, and in contrast to Switzerland's long-standing practice, international efforts to this end are minimal.

At the same time, there is the money leaving a country. This is what Alliance Sud, a coalition of Switzerland's main aid NGOs, calls the "scandal of international tax optimisation and evasion". Some multinational companies in particular transfer their profits out of the country where they make it in order to take advantage of more lenient tax requirements elsewhere. The amounts transferred add up to more than the sum of global ODA, without even including illicit transfers of the proceeds of crime. The think tank Global Financial Integrity estimates them to over USD 990 billion in 2012 (latest available figures). Developing countries are in a difficult position because any tax hike

aimed at bolstering domestic resources risks encouraging this tax evasion. This is why regulation is so important.

Negotiations over standards in this area are currently under way within the OECD and the G20 – in short, among the rich countries. During the negotiations developing countries argued for a truly intergovernmental organisation created under the aegis of the UN. For both the G77 and civil society, this would allow regulation of corporate taxation, profit transfers and other (perfectly legal) avoidance strategies. The developing countries called for a structure similar to the World Trade Organization, the United Nations Industrial Development Organization or the International Labour Organization. In the end a compromise was reached to reinforce the existing United Nations Committee of Experts on International Cooperation in Tax Matters, which has the advantage that it is already functioning. Far from disappearing from the agenda, the issue of international taxation is set to become more important.

The consensus reached as the conference came to a close was welcomed by all member states. While the developing countries had high expectations, however, Luca Etter, programme officer of the SDC's Global Institutions Division, who followed the negotiations, points out that "Addis Ababa was never about reconstructing the architecture

of the international tax system". Instead, he says, it was about realigning development financing to generate new resources. In a joint document prepared for the Addis Ababa conference, the multilateral development banks referred to this as going "from billions to trillions".



Building a railway in Azerbaijan. Sustainable development requires substantial investments in infrastructure. Photo: Daro Sulakauri/ADB

Three Questions to Erik Solheim



Erik Solheim leads the OECD Development Assistance Committee (DAC) since 2013. As DAC Chair, he participated at the Addis Ababa International conference on financing for development. From 2007 to 2012 he held the combined portfolio of Norway's Minister of the Environment and International Development.

1) The three main resources for financing sustainable development – taxes, private investment, and public finance - were already mentioned in the Monterrey Consensus in 2002. What did change with the Addis Ababa Agenda of Action (AAAA)?

The change is the reality that is behind the language. In Monterrey, tax and investment were largely an afterthought added to the outcome document. At Addis, they were very much in the centre, dominating the debate. That is not to downplay aid, but reflecting the tremendous development progress that allows more and more countries to diversify their resources, and exit aid dependency.

2) In the view of the OECD-DAC what are the main actions to be taken to implement the ambitious AAAA?

This is 80% about policies and only 20% about resources. At country level, we have seen how to build tax systems, we know what a good enabling environment for private investment is. Internationally, we need to ensure a sound, fair tax framework, and we need to work towards getting the right incentives in place for a shift towards sustainable investment. The most important is to recognise success and build on it. The essential ingredient for all of this is strong leadership, that can be coupled with focused, pragmatic partnership. Where that exists, relatively little aid will have an enormous catalytic impact.

3) How can the different actors, especially states, be held accountable for the commitments made in the AAAA?

First, accountability will require monitoring of commitments made, and what is being done to reach them. We will do our best from the OECD on the data side of this, but there clearly is a big role to play for the media and civil society as well. But here too, I see an important role for partnerships that bring together the different stakeholders, from developed and developing countries, from the public, civil society and business side. We need naming and shaming, but we also need naming and praising, where praise is due. The inspiration, and practical examples, that a positive message can generate is an incredible powerful driver for progress, both for those performing well, and those struggling to reach their ambition. Again, international organisations like the UN or OECD, can play a key role in facilitating such partnerships.

Credit-funded development

A significant proportion of small businesses in developing countries are unable to borrow money from banks. Switzerland is supporting a programme that aims to offer improved access to those that are excluded from the financial system.

The biggest asset owned by a craftsman in developing countries is often their tools, that of traders their stock and that of pastoralists their herd. But if any of these should decide to seek a loan, they are likely to find every door closed in the banking system. Their profiles do not meet requirements tailored to larger customers who are thought to be more reliable. Nevertheless, access to credit is vital to economic development. Switzerland is helping to bridge this gap by participating in a programme run by the International Finance Corporation (IFC), a member of the World Bank Group that encourages ventures with private sector.

Small customers face two main hurdles. Firstly, the collateral they are able to provide is either insufficient or unsuitable. The banking system does not want cattle or rice, it wants durable assets like property and land. A study conducted by the World Bank concluded that just 22% of microenterprises and small businesses in developing countries own such assets. Title deeds are not always clearly attributed, and women are sometimes unable to have them drawn up in their own name.

This obstacle can be overcome by establishing a legal framework for providing

collateral, including movable assets. Title deeds and holdings are recorded by a public registry, thus guaranteeing that the borrower is entitled to offer them as collateral. This registry brings advantages that may also encourage those active in the informal sector to formalise their business.

The second hurdle is the difficulty lenders face in verifying the creditworthiness of these customers. Can they be trusted to make loan repayments on time, or are they already up to their necks in debt? Collecting this information is a costly process, all the more so given that borrowers are often spread out across rural areas where the banks have no branches. Part of the solution is to create or strengthen 'credit bureaus', which may be public (generally via the central bank), private (a consortium of local banks, for example) or a mixture of the two. These structures, tasked with collecting customers' debt histories, have a two-fold advantage for lenders in that they limit risk and encourage timely repayment. Experience gained in microcredit, meanwhile, shows that small borrowers are generally very scrupulous.

Switzerland has already provided substantial support to financial infrastructure reforms

over the past six years, and these have delivered results. In Ghana, for instance, the collateral registry created in 2010 has facilitated loans totalling USD 14 billion, USD 3 billion of which was secured with movable assets. More than 15,000 female business owners had signed up by June 2014. The Vietnamese registry has recorded almost 400,000 applications and facilitated loans totalling nearly USD 13.7 billion to 230,000 SMEs (cumulative figures).

Studies show that creating these registries and credit bureaus has given small businesses a significant boost and reduced the cost of borrowing. These reforms also strengthen the local financial system, in particular thanks to the indispensable training and information supplied by the IFC as operating partner. The Swiss contribution has a regional dimension with a focus on the priority countries in Africa, Central and East Asia and the sub-Saharan region.

Switzerland is set to contribute USD 17.4 million to this reform programme's total budget of USD 40 million between 2015 and 2020. Its involvement is part of the Addis Ababa Action Agenda (AAAA), which proposes to "strengthen the capacity of financial institutions to undertake cost-effective credit evaluation, including through public training programmes, and through establishing credit bureaus where appropriate".



A market in Nyaug Shwe, Myanmar. People wishing to start a small business often have difficulty in obtaining a loan. Photo: Lester Ledesma/ADB

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