



Preparatory Process for the Third International Conference on Financing for Development

Written comments submitted by Switzerland in response to the Elements Paper prepared by the Co-facilitators

Berne / New York, 12 February 2015

A. General Comments

Switzerland believes that the Elements Paper has captured the essence of the discussions thus far and has provided all elements needed for the first draft of the outcome document. Switzerland would like to share the following overall observations for consideration for the Zero Draft of the Addis Ababa outcome document:

- **When consolidating, specifying and concretizing elements currently proposed in the Elements Paper, the Co-Facilitators should be guided by what is feasible, realistic and what most effectively contributes to sustainable development.** The Addis Ababa outcome document should refrain from including a laundry list of policy proposals and instead focus on those policy changes that could truly transform the way all finance – public and private, international and domestic – is allocated and brought in line with sustainable development goals.
 - **Switzerland supports the building blocks and structure proposed by the Elements Paper, however, the structure needs to be approved by Member States during the Drafting Sessions.** We believe that you have chosen wisely in the way you structured the Elements Paper and believe this offers a good potential structure for the Addis Ababa outcome document. However, Member States should remain open about the structure of the outcome document which will surely be subject to discussion in the upcoming drafting sessions.
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- **The Addis Ababa outcome document is about defining an overall implementation framework and concretizing the Means of Implementation for the Sustainable Development Goals.** We believe that the Elements Paper covers all important aspects currently summarized under SDG 17 and other goal-specific means of implementation. Addis Ababa gives us the opportunity to go a decisive step further and to develop a more comprehensive, systematic and specific understanding of the means of implementation in the context of Sustainable Development including the way we are going to measure progress in this regard. Our ambition is that the Outcome of the Addis Ababa conference will form an integral part of the Post-2015 Outcome, and that therefore the Means of Implementation will not be re-negotiated once agreement has been achieved in Addis Ababa.
- **However, the Addis outcome document should not attempt to specify the Means of Implementation required for each specific goal!** Addis Ababa should pave the way for the alignment of investment decisions and policies with sustainable development at all levels, in each country, and therefore provide an implementation framework for the entirety of the Post-2015 agenda.
- **The Addis outcome document needs to ensure that a suitable monitoring, reporting, follow-up and review mechanism for financing and other Means of Implementation are part of the overall follow-up and review post-2015 accountability framework.** When considering possible FfD follow-up and review mechanisms, we also need to look how such mechanisms relate with the High-Level Political Forum on Sustainable Development (HLPF), the primary forum for high-level stocktaking and review of progress of the post-2015 sustainable development agenda.
- **The Addis Ababa outcome document should clearly distinguish problem descriptions from policy recommendations and the emphasis should be on the latter.** In our view, the emphasis should clearly be on policy action, the descriptive should be limited part to the necessary, maybe to a preamble of introductory chapter. We also find the level of specificity of the policy recommendations in the Elements Paper to be somewhat varied and it would be important to find a better balance across the different issues.
- **The outcome document should focus on the opportunities that an investment in the environment provides to achieve sustainable development, including poverty eradication.** As is, the environmental dimension of sustainable development financing is not fully integrated into the financing framework as proposed by the Elements Paper. On the one hand the interdependence of all three dimensions of sustainable development is not yet reflected in a sufficiently systematic manner. On the other hand the

environmental dimension is too narrowly limited to climate finance, while neglecting other important areas, such as water, biodiversity or chemicals and waste. As an illustrative example, since the Addis outcome document is tasked with providing a framework for sustainable development Post-2015, it would be consistent to use the term sustainable development throughout, for example replacing statements such as “development-oriented venture capital funds” with “sustainable development-oriented venture capital funds”.

- **Promoting women’s economic empowerment is smart economics and can help boost growth and development particularly in countries where current differences in economic opportunities between men and women are persistent.** The importance of Gender equality should be better reflected across the different building blocks than is currently the case in the Elements Paper, i.e. by highlighting the implications fiscal policies have on the revenue and expenditure side to reducing inequalities, and in particular gender inequalities. As the element paper already states in its introduction, large financial gaps between men and women remain and the commitments related to gender equality have not been realized. Both the Monterrey and Doha outcome documents did not sufficiently address the challenges in promoting gender equality and the Addis Ababa outcome document needs fill this gap by advancing policies in all sections that can help foster the economic opportunities of women.
- **Innovative Financing mechanisms can generate additional resources for sustainable development and should not only be discussed under international public finance, but as a cross-cutting issue.** For example, compensation of ecosystem services has great potential not only at the global but also at the national level. In the same vein, pricing carbon is an important mean to raise resources and aligning incentives with sustainable development.

B. Domestic Public Resources

Domestic resources are the central pillar for financing sustainable development. In the discussion of the issue in the Addis Ababa outcome document, it is important to stress that mobilizing resources and spending them efficiently and effectively are closely related. Domestic resources are generated through sustained economic activity by businesses and households that enable governments to raise taxes. The central responsibility of the State, in this context, is to create the conditions allowing the private accumulation of capital and the productive investment of private savings, by the promotion of inclusive social services, transparent and effective institutions, and public infrastructure. This will, in turn, allow the state to collect taxes from households and businesses.

We would like to make the following specific comments:

- **Sound economic policies and an enabling environment for sustainable investment and business practices are at the core of efforts to raise domestic resources.** Efforts to raise domestic resources and crowd in additional investments from international actors for sustainable development will be successful in the long run only if sound economic policies and an enabling environment provide the right incentives for businesses to invest and generate employment and income opportunities for the population at large and for households to save, accumulate assets, and invest in their future and the future of their communities. These efforts must be underpinned by a continued focus on good governance, the rule of law, accountable and responsive public institutions, as well as a sound, transparent and reliable public financial management framework that ensures fair and equitable mobilization and effective spending of public revenues.
- **Realism and feasibility should guide efforts to improving domestic resource mobilization.** DRM is an essential part of the Post-2015 Agenda, yet it is also an extremely challenging one, both in technical and political terms. We thus have to strive for realism and feasibility when setting the final agenda in this area without compromising our ambition.
- **A transparent, fair and competitive tax regime is a key component of domestic public finance.** A transparent, fair and competitive tax regime that induces tax compliance sets the right incentives for private sector-driven sustainable development. This is true for all countries, regardless of their economic development.
- **Tax regimes and public budgets should meet robust transparency standards on all revenue raising measures to ensure accountability and traceability of funds.** Transparent budgets provide legislatures, markets, and citizens with the information they need to hold governments accountable and understand how tax money is spent. The publishing of budget breakdowns also allows the public understand how budget allocation affects different groups of the population, for example women and the poor, and can form the basis for the participation of women and other groups in discussions on budgeting and spending policies. The implementation of the revised Fiscal Transparency Code of the International Monetary Fund and the Extractive Industries Transparency Initiative standard are critical. We also see merit in strengthening the capacity and providing more independence to national supreme audit institutions.

- **An integrated risk management approach can contribute to making public investments resilient to disasters and other natural shocks.** Measures for Disaster Risk Reduction and investments in resilience are cost effective means that contribute to the sustainability of investments and development progress in general.
- **Countries can broaden their tax base by eliminating unjustified tax benefits and tax holidays.** While each country has the primary responsibility for its own tax policy, tax benefits and tax holidays need to be in line with expected benefits of investment activities. Tax benefits and tax holidays that undermine the capacity of the state to generate resources from economic activity will be detrimental to sustainable development in the long run.
- **A benchmark indicating the amount of domestic resources (relative to the gross domestic product) to be dedicated to essential public goods and services could be helpful to promote sustainable development and poverty eradication.** This is of particular importance for gender equality since 70% of the poor are women and social spending constitutes an important tool to break the cycle of poverty for the most vulnerable groups. By contrast, Switzerland does not support crude tax-to-GDP ratios as they do not indicate the amount of resources made available for sustainable development and could induce inefficient tax increases.
- **Resource-rich countries must ensure that the rents from such riches are shared across the society and across generations.** An agreed set of standards for royalty agreements and commodity stabilization funds, the proceeds of which can be used to provide essential public goods and services, can support such efforts.
- **Effective public financial management is as important for domestic resource mobilization at the local level as it is at the national level.** Local investments provide an important route for domestic resource mobilization. Fiscal decentralization; capital investment programmes by local governments; and investments in local productive infrastructure in the public and private sectors are all mechanisms that mobilize domestic capital resources and recycle them back into local economies. We therefore see a need for a) increasing technical assistance and capacity building for both national and subnational entities, including project development, debt management, and sector finance, and b) ensuring appropriate distribution of fiscal authority between national and subnational entities.
- **Illicit financial flows constitute a fundamental obstacle to economic growth and good governance.** The international community must continue its efforts to combat money laundering, curb tax evasion and tax avoidance, and strengthen mechanisms for the recovery of stolen assets. Switzerland contributes to existing internationally

coordinated efforts by implementing globally agreed standards at the domestic level. We also see value in agreeing on an internationally agreed definition of Illicit Financial Flows.

- **The Addis Ababa outcome document should provide standards of good practices for the recovery of stolen assets that help ensure that returned assets will indeed benefit the population of the country of origin.** It should promote the use of tailor-made solutions to ensure that the returned assets will indeed benefit the population of the country of origin, as restitution can be a delicate matter if corruption is endemic in the country of origin of the assets. Possible approaches in such cases include: setting up an independent monitoring mechanism, returning assets via an international organization that runs programs in the country of origin, or cooperating with NGOs.
- **Fossil fuel subsidies should be eliminated and be replaced by more effective social safety nets that benefit the poor.** Fossil fuel subsidies induce behavior that conflicts with sustainable development and is often times regressive, as large shares of the subsidies are absorbed by the middle and higher classes. Eliminating these subsidies would free resources for targeted transfers to the poor. The recent slump in oil prices provides a once in a lifetime window of opportunity to fix harmful energy policies.
- **We support measures aimed at strengthening sustainable procurement systems to support effective, equitable and sustainable development.** Public procurement is an important mechanism for countries and international organizations to promote environmental and social safeguards, ensuring that contracts are awarded to businesses that operate in a socially and environmentally responsible manner and thus foster innovation.
- **We consider that solutions to improve public financial management require a systemic perspective including both technical and policy reforms.** Switzerland is ready to provide partner countries with technical support, advisory services and training on a bilateral, regional and multilateral basis to improve the capacity of their tax administration and design transparent, fair and competitive tax regimes and establish local currency capital markets.

C. Domestic and International Private Finance

The Monterrey Consensus recognizes the importance of private finance to drive jobs and growth, innovation and livelihoods. Addis needs to move a step further by providing a vision and a strategy to align all private investment and financing to sustainable development objectives. The Elements Paper proposes some useful policy recommendations to this end. We would like to comment on a few in particular:

- **Providing a conducive domestic environment for the private sector to thrive is a primary responsibility of each country.** It should also be a top priority for the Financing for Sustainable Development framework. Good fundamentals are necessary to ensure that the private sector can thrive and create jobs, innovate, and contribute to economic development. This is true for large businesses as well as small and medium enterprises, which form the lifeblood of most economies.
- **In poor countries, ODA can play a critical role in strengthening the investment climate.** Establishing a predictable, transparent and conducive investment climate, and engaging with private entities according to principles that support rather than undermine the viability of markets is key to attracting additional private resources for sustainable development.
- **The Addis Ababa outcome document should urge private investors to consider the environmental, social and governance impacts of their decisions and operations and welcome initiatives to promote and strengthen sustainability reporting.** Sustainability reporting can leverage synergies between the growing movement of responsible investment, corporate sustainability and the SDGs. We would also welcome that the Addis outcome stimulates the development of framework conditions which integrate and promote sustainable development factors. Non-discriminatory sustainability standards that incentivize the private sector to align its innovation potential with sustainable development imperatives can be a step in this direction.
- **The Addis outcome document should propose an ambitious, comprehensive and forward-looking agenda on global remittances.** The agenda should clearly state that remittances are not a substitute for ODA, but a complementary private financial source for sustainable development. It should highlight the need to reduce the transfer costs and acknowledge the importance of remittances for sustainable financial inclusion, notably of women, youth and rural population. The promotion of modern technologies and financial product innovation; the increase of accessibility, competition and transparency in the transfer market; the review of policy frameworks as well as targeted, gender-sensitive financial literacy trainings are some of the measures to be included in the outcome document.
- **The availability of financial services in all countries is essential so that the local private sector can help deliver the Post-2015 Sustainable Development Agenda.** This can be achieved for instance through continued efforts to increase financial inclusion. A particular focus should be put on financial services at the sub-national level

as evidence has shown that growth in lagging areas within a country is particularly pertinent to inclusive growth and reducing inequalities. Moreover, in many countries, increased access to financial services can help empowering women and enabling them to partake in the economy and thus contribute to economic growth and development.

- **The Addis Ababa outcome document could support the development of impact investments and the overall impact investment ecosystem by lowering the risk of these investments.** Addis should promote the increased availability of impact investment funds, which are investing in projects where both a financial and economic return is sought, for example in fragile countries or LDCs, through the provision of seed funding, technical assistance, first loss investments or guarantees. Furthermore, targeted modifications of national tax regimes and financial sector regulations in developed countries to generate special provisions for socially and environmentally oriented capital could unlock and promote additional private investment activities in developing countries.

D. International Public Finance

The Elements Paper clearly presents the evidence on how international financing has changed dramatically since Monterrey and Doha and how other sources of cross-border finance have grown at a much faster pace than ODA in the past 15 years. ODA will be nowhere near sufficient to finance the ambitious and universal Post-2015 Agenda we are all striving for. In order to understand the complementary and catalytic role ODA plays compared to other sources of finance, the Addis outcome document needs to find a balance between the firm commitment to ODA; as well as showing an understanding that ODA alone will not nearly be enough to finance the Post-2015 Sustainable Development agenda. We would like to highlight the following points in relation to the importance of international public finance for sustainable development:

- **The role of ODA remains critical and central in the pursuit of sustainable development.** ODA targets the poorest people in a way other sources of external and domestic finance cannot, and it is more poverty sensitive and counter cyclical than any other sources of finance.
- **To reach the goal of ending poverty everywhere, more progress can be made in targeting ODA to contexts where needs are biggest and no other sources of financing are available.** Switzerland supports measures to better target ODA to countries most in need, including LDCs and lower middle income countries and in particular countries affected by conflict, as these countries highly depend on ODA and

have limited access to other sources of finance. In this regard, we also strive to progressively increase the share of Swiss ODA to LDCs. We further believe that ODA should focus on vital global public goods that have tremendous positive spillovers and for which alternative funds are difficult to raise.

- **The Addis Ababa outcome will have to show how ODA can be used in a smart way to leverage other sources of financing for sustainable development, both public and private at domestic and international levels.** This may require a review of the way development actors operate and how they are applying different financing instruments.
- **The development effectiveness agenda forged in Monterrey and further developed in Paris, Accra and Busan needs to be completed and reflected in the Addis Ababa outcome document.** We also need to ensure increased coherence and strengthened linkages of ODA with all three pillars of sustainable development including climate finance. The work and experience of initiatives that bring together specific and mutually reinforcing expertise from multiple stakeholders, such as the Global Partnership for Effective Development Cooperation (GPEDC) and the Development Cooperation Forum (DCF) should be taken into account. Switzerland supports ongoing work towards strengthening complementarity and synergies between the DCF and GPEDC processes based on their respective comparative advantages. These initiatives should also be seen in the broader context of monitoring, reporting, follow-up and review of the Post-2015 Agenda, in particular how they relate to the High-Level Political Forum on Sustainable Development (HLPF).
- **The new Global Partnership needs to be formed around new global realities.** Out of the more than 190 countries that will be attending the Addis Ababa conference, only 30 are what used to be called classic ODA donor countries and only another roughly 40 countries are recipients of large shares of ODA. The vast majority of countries, however, falls in neither of these categories which shows that if a renewed Global Partnership is too narrowly focused on ODA we will miss out more than half the world's countries and their people. We therefore need to agree on a true Global Partnership where the majority of the world's countries are fully engaged! Finally, this also calls for a fair burden sharing amongst the different categories of countries.