Working paper on "Sustainable Development Finance post-2015"

16.06.2014

This document constitutes a working paper that will be further elaborated as discussions evolve. In this regard, it remains flexible and does not constitute a Swiss position for future negotiations.

As the global community works towards establishing a new set of sustainable development goals for the post-2015 era, it will be important to deliver a strategy on how they will be financed. This paper aims at giving a brief overview of the financing needs identified so far, as well as the financial resources available. In the last section, a preliminary Swiss position on "financing post-2015" is outlined, which will have to be revised in light of the international discussions and proposals that will be elaborated in the coming months. This paper substantially quotes the World Bank Report "Financing for Development Post-2015" (disclaimer: no quotation references throughout the text) and uses data analysis provided by the OECD.

1. Background: defining the post-2015 sustainable development agenda

There is broad agreement that the two processes geared at defining 1) the UN post-Millennium Development Goals (MDGs) development agenda on poverty eradication and 2) Sustainable Development Goals (SDG) should ultimately converge towards a single global agenda on sustainable development after 2015. Accordingly, this single agenda should have **a coherent overall financing structure**, integrating different financing streams, amongst others development and environmental ones.[1] Several processes on financing goals in a post-2015 era are currently underway, including the following:

- The Monterrey Consensus (2002), the Doha Declaration (2008) and its follow up process within the UNGA-Second Committee deal with financing the MDGs. In this context, tangible pledges such as the 0.7 percent ODA/GNI target or steering 0.15% to 0.20% GNI to least developed countries were reaffirmed. A third follow-up international conference on development finance will take place in 2015 or 2016.

- The outcome document of the UN Conference on Sustainable Development (Rio+20) established a follow up strand on means of implementation. An Intergovernmental Committee of Experts on Sustainable Development Financing (ICESDF, established in June 2013) will prepare options for an effective sustainable development financing strategy. It will submit a report to the UNGA in September 2014. It is not yet clear how this topic will be integrated in the general intergovernmental negotiations on the post-2015 goals framework.

- The international climate negotiations and the climate finance process are mainly hosted by the United Nations Framework Convention on Climate Change (UNFCCC). Securing the financial means to support developing countries in their mitigation and adaptation efforts is a critical aspect of negotiations. Accordingly the Convention established several financial mechanisms (ex. GEF). It is yet unclear how the topic of climate change may be included in the SDG framework, but so far the discussions remain on separate tracks.

[1] UN High Level Panel Report; Outcome Document of MDG special event; SG report " A life of dignity for all"

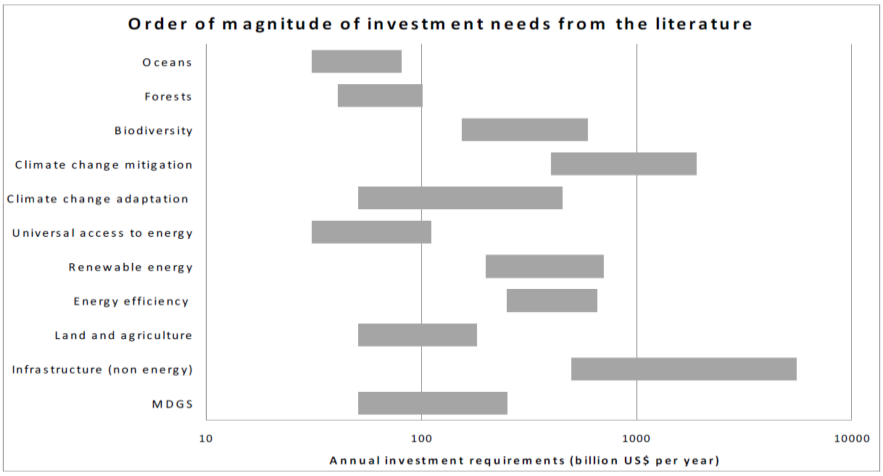
In conclusion, the financing negotiations, despite taking place in different processes, will mutually influence each other. Climate finance projects for example are almost always development relevant. It is not yet clear whether commitments will be kept separate or overlap. However, they should all form part of a comprehensive overall financing framework for sustainable development post-2015, in order to promote an integrated approach to the means of implementation including financing issues.

In this paper emphasis is put on financing the implementation of sustainable development in developing countries, in particular in Least Developed Countries (LDCs) and Middle Income Countries (MICs). In the "universal" post-2015 agenda also industrialized countries will have to finance their implementation in their own countries.

2. Estimates of resources needed to finance the post-2015 sustainable development agenda

The UN Millennium Project (2005) assessed that ODA financing needs to reach the MDGs add up to some USD 130-190 billion a year. For the post-2015 financing needs, there are no systematic assessments so far. However, the UNTT WG on Sustainable Development Financing's report (2013) has compiled a range of estimates covering various sectors relevant for global sustainable development, as the following figure illustrates[2].

Figure 1 Order of magnitude of investment needs for sustainable development



Source 1 UNTT WG, 2013, p. 5

As the WEF Global Agenda Council paper states, additional studies of individual social sectors have provided longer-range costing, for example $38 billion per year on education (Education for All Global Monitoring Report), $57-91 billion per year for health (Lancet Commission on Global Health 2035). Furthermore, the WEF estimated investment requirements of 5.7 US trillion a year for a low carbon economy. The following part elaborates on different financing sources in order to meet such needs estimates.

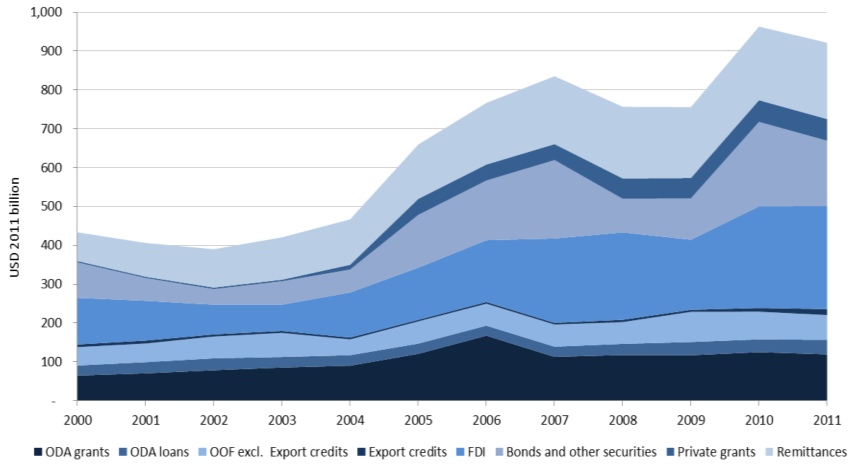
3. Available sources to finance the post-2015 sustainable development agenda

Significant changes in the development finance landscape have taken place since the Monterrey Consensus in 2002, which heavily relied on ODA in its implementation. The latest figures of aid flows show that ODA still is a significant source of external development finance for many countries, especially for LDCs and LICs. However, other external financial flows to developing countries have grown significantly: in 2011, non-ODA flows accounted for over

[2] Estimates cannot be added up because of different methodologies and overlaps of the different sectors. Furthermore, financing needs are dependent on the national and international policy environment. Estimates however do not take into account the extent to how policy environments are enabling to finance.

80% of external financial resources received by developing countries (see figure 2). These non-ODA flows include both official and private flows; they will be detailed further below.

Figure 2 External finance to developing countries from DAC members (2000-2011)



Source 2 OECD, Where does ODA matter most, 2014

The SDGs pursue an even more ambitious agenda than the MDGs, and include the provision and safeguarding of (expensive) global public goods. Addressing these challenges requires a new financial strategy that is (i) broader than aid, (ii) includes international and national sources, (iii) combines public and private finance and (iv) looks at existing and additional flows. It is important to also consider all the possible actors contributing to such a comprehensive financial strategy, among others from emerging economies, private foundations, enterprises, etc. In this context particular attention will have to be drawn on how ODA can leverage additional finance for sustainable development.

3.1 Official Development Assistance ODA

Official development assistance is defined as those flows to countries and territories on the DAC list of ODA Recipients and to multilateral development institutions on the DAC List of ODA eligible international organizations which are:

i. provided by official agencies, including state and local governments, or by their executive agencies; and
ii. each transaction of which:
   a. is administered with the promotion of the economic development and welfare of developing countries as its main objective; and
   b. is concessional in character and conveys a grant element of at least 25 per cent (calculated at a rate of discount of 10 per cent).

The ODA definition has come under criticism over the past decades. Some argue that it is too broad because it includes for instance expenditures not giving rise to cross-border flows to developing countries; others argue that it is too narrow, as it omits some genuine official efforts in favour of development. Moreover the ‘concessional in character’ criterion lacks clarity and leads to differing interpretations and application. These discussions flared up recently and the ODA definition may be revised in view of the post-2015 sustainable development framework.

In 2012, DAC member states disbursed 126.9 USD billion ODA. While ODA steadily increased until 2010 (by 63 % in real terms over the last decade), this trend was reversed in 2011 as it dropped by 4% in real terms, and then again by 2% in 2012 due to the crisis mainly in the Eurozone. Only five DAC donors have reached the commitment to provide 0.7%

ODA/GNI. ODA is now equivalent to 0.29 % of DAC members' combined GNI and the average performance of all DAC countries is 0.4%, falling significantly short of the 0.7% target.

According to the OECD and the World Bank, ODA has been a relatively stable source of development financing for the poorest economies with limited or no access to international capital markets. In 48 LDCs covering 30% of the world's poor, ODA accounts on average for more than 70% of net external flows. The poorest fragile states often depend strongest on ODA (up to 55% of their GDP). In MICs aid accounts for a much smaller share of total development finance. There, ODA represents on an average 6% to 18% of net external flows. In MICs, ODA has remained a valuable resource to help finance public service delivery, catalyze additional private and official flows, and support transfer of knowledge. Further advantages include the stability of ODA flows, which leads to greater predictability as well as enhanced country ownership.

Given the budget constraints confronting many DAC donors, a substantial increase in ODA is unlikely in the near future. However, the last decade saw a diverse group of countries gain prominence in the aid landscape: non-DAC members of the OECD (Turkey); upper MICs and other emerging economies (e.g. BRICS). Overall, by 2011, the annual concessional development finance from emerging economies to LICs was roughly estimated to be between US$12-15 billion, representing 10-15 % of the ODA by DAC members. The share of development finance coming from these new donors may continue to rise. However, these countries do not see themselves as complying with the current framework of DAC ODA criteria.

Mobilizing additional public resources for financing sustainable development
Traditional donors increasingly struggle to mobilize the necessary aid budgets to fulfil international commitments. Moreover, various other international commitments requiring financing from industrialized countries (e.g. the additional 100 billion per year from 2020 onwards for a climate resilient development path within the UNFCCC) even increased the financial burden on state budgets. One question is therefore also how states might generate additional financial means resp. increase public revenues so that they can comply with the commitments taken. Several so called "**innovative sources of finance**"[3] have been designed, such as international levies or taxes (global solidarity levies e.g. the airline ticket tax, co-payment schemes such as the Advance Market Commitment mechanism, etc.). These mechanisms shall generate funding that is *additional* to ODA and it would be used in a complementary way. To further develop them, experience with similar mechanisms at national level, such as the CO2 levy in Switzerland, could be drawn upon. Global CO2 and Financial Transaction Taxes (FTT) have been subject to various discussions, but they remain highly controversial.

3.2 Other Official Support for Development
Besides ODA, there are significant other official flows going to developing countries, which are not counted as ODA because they do not fulfill the requirements set out in the definition (for instance because they are not primarily aimed at development or not enough concessional). They include for example flows like non-concessional loans, export credits, or other official support like guarantees. The OECD DAC is presently working on a possible new concept to give donor countries more acknowledgements for the developmental contribution of such flows, especially because these instruments have high potential to leverage additional private finance for sustainable development.

3.3 Private charity (foundations, NGOs)

The new aid landscape has evolved to include a number of foundations and NGOs. Private aid today amounts to approximately US$60-70 billion per year, equivalent to nearly half the net ODA disbursed in one year by all OECD-DAC members. In Switzerland, NGO private grants represented a significant 0.07% of GNI in 2011, fifth largest among DAC Members. In

[3] Terminology: "innovative sources of finance" should not be confused with "innovative financing for development", some instruments of which are presented in the glossary in the annex.

many cases philanthropy's investments (such as the Gates foundation) are crucial for seeding new initiatives, such as the Global Alliance for Vaccines and Immunizations, and creating the opportunity for governments to scale up successful approaches.

3.4 Private non-concessional finance (FDI, remittances, etc.)

Achieving Post-2015 Sustainable Development Goals will require the mobilization of resources from private sources including Foreign Direct Investment (FDI), bank loans, bond issuance, institutional investors and private capital transfers (incl. remittances). FDI is a dominant private financing modality in most developing countries. They follow a commercial rationale that may also support development objectives. Net FDI inflows to developing countries are projected to rebound by 17 percent to US$697 billion in 2013 and reach close to US$800 billion in 2014.

Over the past decade, many developing economies have demonstrated an increasing ability to access international capital markets. International long-term debt flows to developing countries increased four-fold from 2000 to 2012. However, the global financial crisis led to a sharp contraction, particularly affecting MICs.

Global diaspora resources represent another source for development. There are an estimated 215 million migrants in the world, and in 2012, they sent about US$529 billion in officially recorded remittances to their countries of origin (US$401 billion to developing countries and the figure is projected to grow to US$515 billion by 2015). The international community has yet to harness remittances as a development resource, a controversial issue as they are a private source.

Globally, there are ample private savings, amounting to US$17 trillion, and liquidity is at historical highs. The challenge however will be to direct these savings towards investments that also support the achievement of global development objectives.

3.5 Domestic resource mobilisation

Developing countries need to mobilize their own resources (tax revenues, domestic public and private finance, etc.) for poverty reduction and sustainable development, in order to make them less dependent on aid. *Domestic revenues also raise country creditworthiness for official and private non-concessional loans, thereby having a multiplier effect on the volume of resources available for development (HLP Report).* The UN estimates that domestic revenues should represent at least 20% of GDP to achieve the MDGs. In LICs, tax revenues account for only about 10-14 % of GDP, one-third less than in MICs and far below the 20-30 % of GDP in high-income countries (WB). The questions are how the contribution of domestic resources to finance development needs can further be increased, how losses through illicit activities can be avoided and how collected revenues can be used more effectively to contribute to poverty alleviation and sustainable development.

On collecting revenues, it is crucial to establish a fair and transparent tax policy as well as an efficient tax administration and a sound policy for private sector development. In addition, to manage the natural resource wealth incl. transparency of revenues from the extractive sector is important. Reforms in the tax policies of some countries may include i.e. broadening the tax base or strengthening weak technical and institutional capacities to curb tax evasion and avoidance, etc.

On the expenditure side, the efficiency of the use of public revenues enables to allocate larger amounts towards sustainable development objectives. Strengthening public expenditure and investment management can help improve the quality of public expenditure, including through better selection, design and management of public investment projects, thereby improving the enabling environment for investment. Reforms in subsidy regime and procurement in particular as well as fostering transparency can increase public expenditure efficiency and allow more spending on poverty reduction. Finally the states' accountability about public expenditures towards its citizens is very important in order to contributing to better governance (see Swiss working paper on "Governance post-2015").

The capacity of developing countries to mobilize their domestic resources is also affected by international framework conditions and other countries' sectoral policies (cf. chapter 4).

4. Financial resources as a means of implementation

As highlighted in the UN report "A life of dignity for all" financial resources are one element of the means of implementation required for the new sustainable development agenda. Other elements are technology development and transfer, capacity-building, inclusive and equitable globalization and trade, regional integration as well as the creation of a national enabling environment, in particular in developing countries. The financing strategy for the post-2015 sustainable development agenda must therefore follow a comprehensive approach, going well beyond ODA. To make the financing streams materialize will require appropriate, conducive policies in developing and developed countries, nationally as well as internationally, setting the right incentives and providing adequate regulation where necessary. This is not only about development cooperation policies, but much more generally about the framework conditions of the economy, the national policies in the various thematic areas geared towards sustainable development, internationally shared global standards, etc. Creating an enabling environment for investment in developing countries is for example one aspect that should be emphasized.

In order to maximize impact, it will be important to ensure that policies reinforce each other in view of the same goals. Policy coherence for sustainable development is, according to the preliminary Swiss position on the post-2015 sustainable development framework, an essential principle to be promoted to achieve the SDGs. Improving governance conditions at all levels will remain an important element, including complying with global standards on combatting corruption, tax avoidance and evasion and bribery, in order to curb illicit financial flows. Last but not least the transfer of knowledge and technology, still in the appropriate policy framework, will be important to ensure that for example production processes become more resource efficient and sustainable.

5. Preliminary Swiss Position

Switzerland believes that the financing framework post-2015 should be set up along principles, as included in the UN-GA resolution A/C.2/68/L.25 on the follow-up to the International Conference on Financing (Dec 2013). We stress in particular:

- First, while each country has the primary responsibility for its own economic, social and environmental development, as expressed in the Monterrey consensus, it is a global responsibility to reduce aid dependency and to foster domestic resources;
- Second, fostering appropriate enabling environments and incentives, both nationally and internationally, is critical for mobilizing and channeling resources effectively and sustainably;
- Third, we re-iterate that the fulfilment of official development assistance (ODA) commitments is crucial. Moreover, the universal agenda calls for a fair burden sharing by *all* countries - developed and developing;
- Fourth, resources should be directed according to needs and commitments to achieve results; they should be used effectively and efficiently. In addition, fragmentation of international efforts should be reduced and coordination enhanced, in view of a sound global governance;
- Fifth, we re-iterate the importance of policy coherence for sustainable development; since domestic and international policies have an impact on the availability of resources for sustainable development.

While it is clear that ODA remains important, the financing needs for the post-2015 agenda are tremendous and ODA will not suffice by any means. We support a **comprehensive fi-**

nancing strategy, emphasizing the importance of domestic resource mobilization, using the comparative advantage of each financing source and promoting an enabling environment for these financial sources to be generated and allocated efficiently towards sustainable development. We should make sure that the various sources of finance respond to the diversity of social, economic and ecological needs and contexts in different types of countries. However, the financing strategy for sustainable development will ultimately depend on the specific targets that will be agreed upon by the international community within the post-2015 process. Each sector/ goal may use a different appropriate mix of the various financial sources.

In the following, the preliminary Swiss position on several of these sources is briefly outlined:

Domestic Resource Mobilization (DRM). Switzerland supports the focus on domestic resource mobilisation proposed by the UN Secretary General in its report "A life of dignity for all". Indeed, DRM and sound public finance management help to reduce aid dependency, build institutions and foster accountability. We consider domestic resources as the most important financial source for development. Where necessary, these resources should be supplemented by external support. Switzerland will therefore continue to provide ODA to promote DRM in partner countries.

ODA. Switzerland is committed to its ODA target of 0.5% of GNI, and will continue to focus its ODA in particular on LDCs (and in particular in fragile contexts) as these countries highly depend on ODA, as well as in MICs where poverty and inequalities remain high and which face considerable challenges in mitigating global risks. This ODA target includes activities for addressing climate change in line with the OECD ODA definition. At the same time, Switzerland recognizes furthermore the UN-ODA target of 0.7% of GNI. It is important to continue improving the effectiveness of ODA activities. Furthermore, Switzerland will build on its experience with using ODA as a catalyst in particular to leverage additional resources form the private sector (cf. Annex 1 with examples of Swiss ODA activities).

Other official support for sustainable development: Switzerland acknowledges the potential of non-concessional loans and guarantees to leverage additional sources for development, while it remains to be seen how these can be directed to support specific sustainable development goals. These market based instruments for allocating risks between public and private sector need to be further explored.

Private sector. Switzerland is a major source of foreign direct investments and a global leader in sustainable investments. Switzerland continues supporting and actively implementing international initiatives to foster businesses' responsibilities (e.g. the UN Guiding Principles on Business and Human Rights). We agree that several financing sources need to be tapped, including from private investors that seek social and/or environmental benefits next to financial returns. In order to trigger investments from the private sector, appropriate conditions need to be in place, they will not happen automatically. Therefore, one key question to be addressed in the post-2015 sustainable development framework will be how to provide the right incentives and regulatory framework for the private sector (e.g. pension funds) to invest in activities supporting the realization of the SDGs.

Remittances. Remittances have a high potential to contribute to sustainable development. Considerable amounts of remittances are originating in Switzerland (2011: 935 million USD). Switzerland has identified first projects aimed at lowering costs of sending remittances, especially by increasing transparency and boosting competition of providers of such services.

Illicit financial flows. Switzerland recognizes that illicit financial flows impede domestic resource mobilization in developing countries. A comprehensive vision and internationally coordinated action is necessary to successfully curb illicit financial flows. Switzerland contributes to these efforts aiming at working towards and implementing globally agreed standards to combat tax fraud and illicit financial flows. Accordingly, Switzerland supports the OECD in its initiatives to ensure that profits are taxed in the location where the actual economic activity takes place. At the domestic level efforts to combat money laundering and to curb tax evasion and tax avoidance will continue. Switzerland pays attention to ensure correct taxation of natural and legal persons, including the profit of companies operating internationally. In addition, Switzerland will implement the automatic exchange of information. Efforts to restitute stolen assets will continue (Annex 3).

Innovative sources of finance. To finance the implementation of Sustainable Development Goals, states may need to generate additional revenues. They may consider some forms of innovative sources of finance at national and international levels. Switzerland will closely follow these discussions aiming at working towards the establishment of global frameworks to foster innovative sources of finance (e.g. global CO2 tax).

Multilateral Development Banks (MDBs). Switzerland's contributions to multilateral organizations are focused on where the most value can be added and where synergies between bilateral and multilateral programs are large. MDBs have a unique catalytic role to play. Besides technical expertise and standard setting, their comparative advantage lies in their credit capacities in terms of volume, risk buffer and knowledge of financial instruments.

Environment Finance (including Climate Finance). We acknowledge the fact of separate international processes on environment (including climate change, and themes of other Rio conventions and related protocols), development and sustainability, but we emphasize the need to deliver an overall, ultimately integrated approach for financing for sustainable development addressing all three dimensions of sustainability.

Annex 1

Switzerland's ODA activities to leverage additional resources

In 2011, Switzerland provided 3051 Million USD ODA. It allocated 46% of its bilateral ODA to LDCs, 7% to other LICs. The share of bilateral ODA for the 2013-2016 period is 77%, while the rest is devoted to multilateral institutions.

Meanwhile, as stated above, changes in the donor landscape and the geography of poverty mean that the role of ODA is also changing. Particularly, the engagement with the private sector has gained increased attention. It is useful to distinguish between private sector development and engaging the private sector for development.

With regard to private sector development, Switzerland has already a large experience in using **ODA as a catalyst**. Trade and investment in developing countries as well as private and financial sector development can generate significant resources for sustainable development: income for the people and revenues for the state (trade revenues, investments from domestic and foreign investors, etc.). In order to do so, the right framework conditions must be in place (business environment, trade regulations, etc.). Therefore, Switzerland has been supporting for a long time developing countries in reforms in these areas. Moreover, Switzerland has many ODA activities supporting the development of the local private sector and the financial sector to make it more inclusive and accessible for the poor in developing countries (ex. projects on sustainable value chains, access to finance, financial inclusion, etc.). Furthermore, Switzerland has been pioneering insurance pilots for agricultural harvest losses in direct partnership with leading re-insurers.

With regard to engaging the private sector for development, ODA ought to become "smarter", meaning that it should increasingly be used to **leverage additional private financial means to be invested for sustainable development in developing countries**. There are a number of instruments at the disposal of donors which aim at inducing public and private investors to finance activities that may not be financially viable on their own but are expected to have a significant development impact (ex. to cushion potentially high risks associated with certain investments, for example in fragile environments (for details c.f. Annex 2). Switzerland places particular emphasis on mobilizing and leveraging knowledge, technology and financial resources of the private sector, both in Switzerland and abroad, to trigger private investments and trade in developing countries. To this end, Switzerland provides assistance and finance by crowding in and leveraging private capital flows in areas where investors are unprepared to act alone. An interesting example is the **Swiss Investment Fund for Emerging Markets** (SIFEM AG) - the Swiss Development Finance Institution - that offers long-term corporate financing by taking a financial stake in developing countries' venture capital funds which then provide equity to SME, or by granting loans to local financial intermediaries (banks and microcredit institutions). Another example is the **Private Sector Facility of the Green Climate Fund** (GCF): Switzerland serves on the Private Sector Advisory Group that shall establish this facility. Switzerland will actively engage to accelerate market development of sustainable finance. It also supports activities of commercial partners to leverage capacity building for local producers and processors in developing countries.

Table 1 Example of private finance leverage

the ***SuizAgua Colombia*** *project: water footprint (WFP) put in practice*: The project applies the water footprint (WFP) indicator as a way of monitoring and improving water use efficiency and reducing impacts of the business sector. The investment for the reduction of the water footprint of the companies and the supply chain is fully financed by the companies themselves. Switzerland's financing is used for knowledge creation and transfer and also to support and exchange between the development of ISO-Norms and the application of the water footprint by companies. Through memorandums of understanding among Switzerland and private companies in Colombia (4 Swiss and 7 Colombian companies), a

Public Private Development Partnership was established. In this kind of blending arrangement, from 2010 to 2014, SDC invested 1'678'000 CHF **27%** of the total while contributions from partners mount up to 4'572'800 CHF **73%** of the total, the leverage ratio being 2.7:1 CHF invested.

A significant share of Swiss ODA is invested in the **MDBs**. The multilateral financing institutions have focused their activities on leveraging private sector and domestic resources for sustainable development for many years. Their technical expertise and various financial instruments have mobilized an increasing share of private sector investments.

Switzerland has several ODA-activities aiming at **strengthening the local tax administrations**. They include enhancing transparency of public finances as well as increasing state accountability. By helping to strengthen the collection and management of state revenues these measures contribute to domestic resource mobilization. Moreover Switzerland supports several initiatives that should help developing countries to take better advantage of their natural resources wealth (ex. MNRW TTF), as well as the World Bank-run Wealth Accounting and Valuation of Ecosystem Services (WAVES) partnership. Finally, Switzerland conducts capacity building activities in developing countries on combatting **illicit financial flows** and supports several international instruments and initiatives in this area, such as by the OECD and the World Bank. At the domestic level, the Federal Council is prepared to take action on a number of measures (cf. Background Report on Commodities to the Federal Council).

Annex 2

Important public finance mechanisms apart from traditional ODA grants

Guarantee Mechanisms. Guarantee mechanisms are a mean for donors to reduce investment risks and thus encourage lending to higher risk projects. This mechanism allows donors to share the risk of debt service default with recipient governments or private investors and induce investments in innovative and potentially high risk high return projects, as well as large (infrastructure) projects where full financing may not be available at the onset. When providing guarantees to private entities, they are mostly used when local financial markets are sufficiently developed to offer access to businesses but where associated levels of risk are unacceptable to lenders.[4]

Matching grants. Matching grants characterize joint financing mechanisms where donors match private investments to foster pro-poor investments and activities that would have otherwise not taken place, not because of low returns, but rather due to high risk; weaknesses in financial markets; the "public good" character of some of the envisioned benefits; lack of information; or the high costs of entering new markets.

Blending. Blending is a mechanism that combines grants with additional flows (such as loans and risk capital) to gain financial and qualitative leverage with the goal of making projects and initiatives financially viable.

Green Bonds: Green Bonds (e.g. climate awareness bond[5] of the European Investment Bank) are sustainable investment bonds which mobilize fixed investments of private and public sustainability funds for projects with an environmental impact.

Development Impact Bonds (DIB). DIBs are a sub-category of social investment bonds that aim at linking socially oriented funds – both public and private – with the achievement of a development outcome. All involved partners (investors, CSOs and public entities involved in the delivery of a service, international donors and host governments) agree on a common goal and a way to measure success (for example increased school attendance of girls or quality of education). The project is then financed by private investors while the donor agency functions as an "outcome funder" that repays the investor, whereby the return on investment is depending on the success of the project (increase of girls in school or improved test scores). The idea behind the concept of DIBs – which as of now is mainly a construct of think tanks and academics – is that by linking investments to development outcomes, investors have reason to pursue effective and innovative ways of achieving a development goal.[6]

Export Credits and Risk Insurance. Export credits are government supported credits – often channeled through Export Credit Agencies (such as SERV in Switzerland) - in support of national exporters competing for overseas sales. Support can take the form either of direct credits to foreign buyers or export credit insurance or guarantee cover for credits provided by private financial institutions. As an example, SERV provides a number of insurance schemes for exporters based in Switzerland, including supplier credit insurance, pre-shipment risk insurance, contract bind insurance, counter guarantees and confiscation risk insurance.[7]

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[4] Smith, William (2013). How Donors engage with Business. Overseas Development Institute (ODI).
[5] http://www.eib.org/investor_relations/press/2013/2013-109-eib-launches-largest-eur-climate-awareness-bond-cab-ever.htm
[6] Center for Global Development and Social Finance (2013). Investing in Social Outcomes: Development Impact Bonds.
[7] http://www.serv-ch.com/en/products/products-for-exporters/

Annex 3

Switzerland has proven its commitment to combating capital inflows from illegal activities and corruption not only by its active participation in international initiatives, but also in adopting a comprehensive legislation and especially in the number of cases that have been resolved worldwide. Switzerland has signed the UN Convention Against Corruption (UNCAC) in 2003. Over the course of 25 years, Switzerland has become a world leader in the field of recovery of illegal assets held by former heads of state and other PEPs (politically exposed persons) by having returned to their countries of origin a total of USD 1.8 billion in assets unlawfully acquired by PEPs. Switzerland finds tailor-made solutions to ensure that the assets returned 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 projects and programmes in the country of origin, or cooperating with NGOs. At the international level, Switzerland supports the Stolen Assets Recovery (StAR) Initiative of the World Bank and UNODC, as well as capacity building and legal advice activities of the International Centre for Asset Recovery (ICAR) in Basel. In 2010, Switzerland organized an international conference on development and the recovery of stolen assets. Also Switzerland has organized informal expert meetings in Lausanne since 2001; the seventh edition of these meetings was held in January 2013 on the topic of the Arab Spring and the Stolen Assets Recovery.