

General overview

Federal Council objectives for 2021

During the reporting period, the Federal Council continued to promote and strengthen the rules-based multilateral international trade order and the existing network of bilateral trade agreements. The Federal Council also approved an updated foreign economic strategy.

The Federal Council will report in detail on the implementation of the foreign economic policy objectives in its 2021 annual report. A preliminary assessment indicates that the objectives were largely achieved. One significant exception, however, is the Institutional Agreement (InstA) with the EU. The Federal Council felt that the conditions for the conclusion of this agreement were not met and therefore took the decision not to sign the InstA.

General situation (section 1)

The economic recovery with the waning of the COVID-19 pandemic continued in the reporting period. However, Switzerland faces structural uncertainties, in particular the emergence and reinforcement of blocs with protectionist tendencies.

Aiming to address the challenges of the global economic situation with an effective foreign economic policy, the Federal Council adopted a new foreign economic strategy on 24 November.

Feature topic: the COVID-19 pandemic and economic development cooperation (section 2)

Alongside implications for public health and society, the COVID-19 pandemic also has profound economic consequences in developing countries and emerging markets. It accentuates existing structural problems, adds pressure on public finances and further increases the need for reform and financing. Overcoming the COVID-19 pandemic and the economic recovery are interlinked. The situation in developing economies and emerging markets therefore remained volatile in the reporting period. It is important to Switzerland that these countries also recover as swiftly as possible from the crisis. The opportunity should be taken to bring about long-term structural change within the framework of the Sustainable Development Goals in the 2030 Agenda and the Paris Agreement. Through its bilateral and multilateral partners, Switzerland's economic development cooperation plays an important part in responding to the impact of the crisis. This cooperation contributes to stabilising the global economy and building long-term resilience, both of which are directly in Switzerland's interest.

Key economic policy trends relating to foreign trade (section 3)

In the reporting period, the Federal Council continued to work to safeguard the economic recovery from the COVID-19 pandemic and to preserve Switzerland's competitiveness. With regard to security of supply in crisis situations, various studies highlighted Switzerland's strengths and potential for improvement. In order to support the tourism sector, which has been particularly hard hit by the crisis, the Federal Council

adopted specific instruments, including a Recovery Programme for Tourism for the period 2022–26. In addition, Parliament's counterproposal to the 'Fair prices initiative' entered into force on 1 January 2022. The new law intends to ensure a level playing field for Swiss businesses when competing internationally. On behalf of Parliament, the Federal Council initiated the introduction of an investment control.

Economic relations with the EU (section 4)

Subsequent to an overall evaluation, the Federal Council decided on 26 May not to sign the InstA and to discontinue negotiations with the EU, while continuing to pursue the bilateral approach and its proven track record. Switzerland has a significant interest in facilitating and securing access to its most important foreign market. With this goal in mind, the Federal Council's proposals included the launch of a regular structured dialogue with the EU at ministerial level. It is also reviewing options for further autonomous elimination of regulatory differences, although such autonomous measures will not replace the mutual recognition of equivalent regulations. With a view to continuing and developing the bilateral approach between Switzerland and the EU, the second Swiss financial contribution to selected EU Member States was approved.

Multilateral relations (section 5)

The twelfth WTO Ministerial Conference was again postponed due to the pandemic. The preparatory negotiations focused on key trade policy topics and challenges related to the COVID-19 crisis. The multilateral negotiations on fisheries subsidies also made substantial progress. Switzerland was actively involved in initiatives in the area of trade and environmental protection and signed associated declarations. In other multilateral organisations, too, including the G20 and the ILO, Switzerland successfully defended its positions.

Bilateral relations (section 6)

Due to the COVID-19 pandemic, few physical meetings with partner countries were held, thereby rendering progress in negotiations difficult. The Comprehensive Economic Partnership Agreement between EFTA and Indonesia, which was accepted by the Swiss population on 7 March, entered into force on 1 November. In order to implement the sustainability requirements in the agreement, the Federal Council adopted the Ordinance on the import of sustainably-produced palm oil from Indonesia and enacted it at the same time as the agreement.

Since 1 January 2021, trade relations between Switzerland and the United Kingdom fall largely under the bilateral trade agreement signed in 2019. The temporary agreement on mobility of service providers signed in 2020 has also been applied, on a temporary basis, since 1 January 2021. Since 1 September 2021, Switzerland and the United Kingdom have provisionally applied the revised rules of the Regional Convention on pan-Euro-Mediterranean preferential rules of origin (PEM Convention) in the context of their bilateral relations. An agreement on the mutual recognition of 'Authorised Economic Operators (AEO)' has also been in force since 1 September. Both

parties embarked on exploratory talks on a modernised trade agreement in the reporting period. In addition, both countries have been conducting negotiations on a financial services agreement since the beginning of 2021.

Sustainability and responsible business conduct (section 7)

Both at the WTO and within the framework of free trade agreement negotiations, the topic of sustainability has played a pivotal role. Along with the pandemic, addressing environmental protection and social inequalities continue to be key challenges. Switzerland and its EFTA partners adopted various measures to improve monitoring the implementation of provisions on trade and sustainable development in their free trade agreements. The Federal Council also promoted responsible business conduct, both in Switzerland and abroad. Parliament's counterproposal to the rejected popular initiative 'For responsible businesses – protecting human rights and the environment' entered into force on 1 January 2022.

Economic development cooperation (section 8)

Switzerland started implementing its International Cooperation Strategy 2021–24 in the reporting period. One of the focus areas is mitigating and adapting to the impacts of climate change. Switzerland is therefore gradually increasing its contribution in this area to CHF 400 million a year. In the reporting period, the Federal Council decided to contribute CHF 24.8 million to the twelfth replenishment of the Asian Development Bank (ADB).

Export controls, arms control policy and sanctions (section 9)

A partial revision of the Chemicals Control Ordinance entered into force on 1 November 2021. This is intended to facilitate implementation for industry and the authorities.

The Federal Council tightened sanctions against Belarus and Myanmar. In the reporting period, Swiss businesses continued to be affected by US economic sanctions in connection with the Nord Stream 2 pipeline project.

Outlook for the year ahead

The Federal Council will continue to work to minimise the global effects of the historic COVID-19 crisis within the framework of economic development cooperation but also through trade policy.

The Federal Council is reviewing Switzerland's options with regard to its bilateral relations with the EU and will submit a report in 2022. This report will evaluate existing relations between Switzerland and the EU and the scope for new ways to continue and develop the bilateral approach and good cooperation with the EU.

Data protection in international relations will continue to be a priority for the Federal Council in the year ahead. Besides the EU's pending decision on the adequacy of Switzerland's data protection level, Switzerland also seeks to reach an agreement with the United States on the exchange of personal data and to rapidly implement a follow-up arrangement to the Privacy Shield.

Within the WTO, the Federal Council will continue to advocate for the reinforcement of the multilateral trade system and the further development of the WTO rules, including in plurilateral negotiations. Negotiations with India, Malaysia and Viet Nam on a free trade agreement and with the United Kingdom on development of trade relations and a financial services agreement will be pursued with priority.

The Federal Council will also continue to support new and innovative solutions at the interface between foreign economic policy and sustainability, for example in the negotiations on an Agreement for Climate Change, Trade and Sustainability (ACCTS) and through similar undertakings in free trade agreements.

Switzerland concluded negotiations with Germany on a cooperation agreement regarding competition law in August. The agreement is to be signed in 2022.

In the area of responsible business conduct, the OECD Guidelines for Multinational Enterprises are to be updated.

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Feature topic: the COVID-19 pandemic and economic development cooperation

Alongside implications for public health and society, the COVID-19 pandemic also has serious economic consequences in developing countries and emerging markets. It accentuates existing structural problems, puts added pressure on public finances and further increases the need for reforms and financing. The risk of overindebtedness and debt distress is increasing.

Overcoming the COVID-19 pandemic and the global economic recovery are inextricably linked. This is particularly true for a highly globalised country like Switzerland. Switzerland's economic development cooperation has therefore bolstered its commitment to tackling the COVID-19 crisis at bilateral level and is making a contribution to local populations and businesses. It gears its activities to two focus areas: promoting a reliable economic framework conditions and engaging with the private sector in creating and preserving decent jobs. At the same time, Switzerland is committed to a strong multilateral system, which will allow policies to be coordinated and the effect of financial commitments to be optimised.

Besides development policy measures, overcoming the COVID-19 pandemic and its impact will require a coordinated approach spanning different policy areas. In the interests of policy coherence, Switzerland advocates better coordination of trade policy responses to the COVID-19 pandemic in order to guarantee supplies of crucial medical equipment and vaccines to developing countries.

The COVID-19 crisis is putting the orientation of global international cooperation, including international financial architecture, to the test. International cooperation faces a multitude of crises and challenges – including poverty, climate change, fragility and inequality – whose implications do not stop at national borders. Donor countries such as Switzerland are torn between the conflicting priorities of short-term crisis response and long-term structural change as part of the Sustainable Development Goals under the 2030 Agenda and the Paris Agreement of 12 December 2015.¹

Switzerland's economic development cooperation is well placed in this dynamic context. It contributes to economic development, both as part of the Federal Council's Foreign Policy Strategy², Foreign Economic Policy Strategy and Switzerland's International Cooperation Strategy 2021–24 of 19 February 2020³ and ensures that Switzerland's interests continue to be safeguarded during the COVID-19 crisis.

1 SR 0.814.012

2 Switzerland's Foreign Policy Strategy 2020–23 of the Federal Department of Foreign Affairs (FDFA) of 29 January 2020, accessible at: www.eda.admin.ch > Publications (consulted on 13/12/2021).

3 BBl 2020 2597

1.1

The consequences of the COVID-19 crisis for developing economies and emerging markets and international cooperation

As well as impacting public health and society, the COVID-19 pandemic also has serious economic consequences. The International Monetary Fund (IMF) observed a year-on-year decline in global economic output of 3.2% for 2020.⁴ Developing economies and emerging markets are for the most part more heavily affected by this recession and its ramifications than advanced economies and are less equipped to deal with them. The World Bank estimates that just under 100 million people will fall back into extreme poverty as a result of the COVID-19 crisis, with extreme poverty rising in 2020 for the first time in 20 years. This trend reversed in the reporting period, with global poverty expected to fall by around 21 million in 2021 versus 2020. This corresponds to the decline expected for the reporting period before the outbreak of the pandemic. However, it is likely to take years for poverty reduction to reach pre-COVID levels.⁵ Those worst affected by the COVID-19 crisis have been women, children and workers in the informal sector. The majority of these 'new poor' are from middle-income countries and were only recently able to escape extreme poverty.⁶

The COVID-19 crisis illustrates the fragility of successes in international poverty reduction. It underscores the importance of resilient economies and institutions and of social cohesion in developing economies and emerging markets to achieve lasting prosperity, to make international value chains more flexible and to create new markets. A worsening of the economic situation for broad sections of the population in developing economies and emerging markets increases the risk of social unrest and political destabilisation. This in turn increases migratory pressure.

Alongside its bilateral commitment, in the reporting period Switzerland stepped up its involvement in multilateral organisations to tackle the effects of the COVID-19 crisis. The combination of bilateral and multilateral support measures for developing economies and emerging markets is just as important for an open economy like Switzerland as global health cooperation to tackle the pandemic. Switzerland's economic development cooperation as part of its international cooperation operates in this context in accordance with the Federal Council's Foreign Policy Strategy and Foreign Economic Policy Strategy, and ensures that Switzerland's interests continue to be safeguarded throughout the COVID-19 crisis.

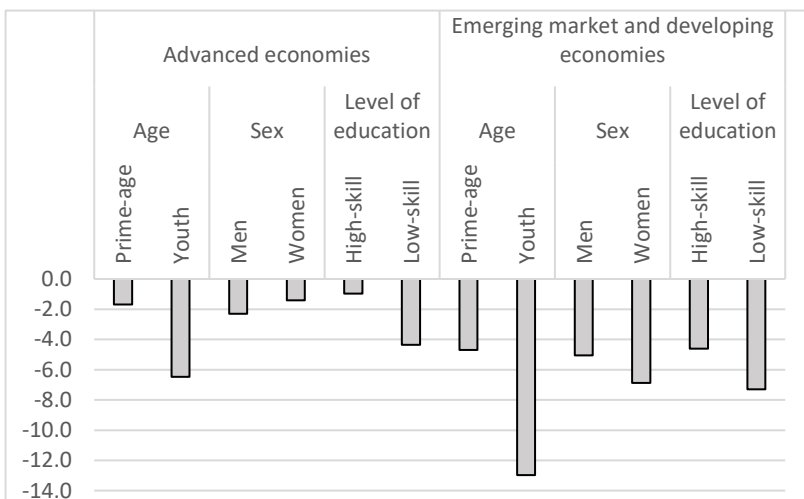
4 IMF (2021): World Economic Outlook Update, Fault Lines Widen in the Global Recovery, July 2021, accessible at: www.imf.org > Publications > World Economic Outlook (consulted on: 13/12/2021).

5 Mahler, Daniel Gerszon et al (2021): Updated estimates of the impact of COVID-19 on global poverty: Turning the corner on the pandemic in 2021?, in: World Bank Blogs, accessible at: www.blogs.worldbank.org > Data Blog (consulted on: 13/12/2021).

6 Atanda, Kay / Cojocaru, Alexandru (2021): Shocks and vulnerability to poverty in middle-income countries, in: World Bank Blogs, accessible at: www.blogs.worldbank.org > Let's Talk Development (consulted on: 13/12/2021).

1.1.1 Economic challenges for developing economies and emerging markets

In the spring of 2020, measures to contain the COVID-19 pandemic led to a sharp decline in and in some cases interruption to production, demand, foreign investment and global trade. Key import and export markets temporarily disappeared. As a result of the simultaneous shock in both supply and demand, businesses found themselves in financial difficulty and in some cases were no longer able to cover their operating costs. Jobs and informal work opportunities were lost. According to estimates by the International Labour Organization (ILO), the income of over a billion workers in the informal sector worldwide fell by 60% during the first month of the COVID-19 crisis. This significant decline particularly affected women.⁷ Graphic 1 shows the evolution of the employment rate in developing economies and emerging markets and draws a comparison with advanced economies.



Graphic 1: Change in the employment rate: percent difference from Q4 2019 to Q1 2021. Source: IMF, World Economic Outlook, October 2021.

The COVID-19 crisis has resulted in serious financial losses for the public sector in developing economies and emerging markets. These are the result of a drastic decline in income from the export sector, particularly tourism, falling commodities prices and a drop in customs and tax revenues. Foreign direct investment, particularly in new projects, has been postponed or cancelled. This significantly affected development-

7 ILO (2020): ILO Monitor, COVID-19 and the world of work, 3rd edition, p. 1–2 and 7, accessible at: www.ilo.org > Topics > COVID-19 and the world of work > Global impact and policy recommendations > Data and Analysis (consulted on: 13/12/2021).

related greenfield investments⁸ in industry (–42% in newly announced project investments) and international project financing (–14%), which is crucial to the funding of infrastructure provision.⁹ Dwindling currency reserves are putting increasing pressure on local currencies in developing economies and emerging markets, which makes repaying foreign currency loans more difficult. Meanwhile, the measures to respond to the pandemic and to support the public and the economy are weighing on public spending and further driving up public debt levels. There is a risk of debt distress and, in the worst case, state insolvencies.¹⁰

1.1.2 Comparison with the situation in Switzerland

Advanced economies such as Switzerland also face economic challenges caused by the pandemic, particularly a sudden and simultaneous drop in supply and demand. However, they are better placed to successfully manage them. During the first wave back in 2020, the Federal Council already put in place numerous measures to cushion the economic impact of the COVID-19 pandemic. Three central instruments were deployed: short-time working compensation, compensation for loss of earnings for the self-employed, and COVID-19 loans. As the crisis developed, a hardship regulation¹¹ was put in place for businesses particularly hard hit by the pandemic.

The overarching aims of these measures were on the one hand to shore up and preserve the spending power of employees and the self-employed by stabilising employment and securing wages. On the other, businesses that were essentially sound and viable were given financial support to help them get through the crisis. Despite the support measures, Switzerland experienced the sharpest economic decline for decades in 2020.¹² However, the Federal Council's measures created the conditions for a dynamic economic recovery after the epidemic had flattened out. To support the economic recovery, the Federal Council adopted an economic policy transitional strategy with three pillars in the summer of 2021.¹³ One of the aims of this strategy is the gradual phasing-out of the extraordinary support measures ('normalisation' pillar).

As some businesses may have an increased need for adaptation, the economic recovery is to be supported by reinforcing tried and tested instruments of location promotion, innovation and education policy, and labour market policy ('supporting the recovery' pillar). In addition, Switzerland's long-term growth potential is to be

8 This refers to the building of new production sites.

9 UNCTAD (2021): World Investment Report 2021, accessible at: www.unctad.org > Publications (consulted on: 13/12/2021).

10 Georgieva, Kristalina et al (2020): Reform of the International Debt Architecture is Urgently Needed, in: IMF Blog, accessible at: www.blogs.imf.org > Global Economy (consulted on: 13.12.2021); IMF (2021): Macroeconomic Developments and Prospects in Low-Income Countries, accessible at: www.imf.org > Publications > Policy-Papers (consulted on: 13/12/2021).

11 COVID-19 Hardship Assistance Ordinance of 25 Nov. 2020 (SR 951.262).

12 Quarterly data on gross domestic product from SECO on GDP using the production approach, adjusted for sporting events, of 26 Nov., accessible at: www.seco.admin.ch > Economic situation & economic policy > Economic situation > Gross domestic product > Data > Additional data (consulted on: 13/12/2021). GDP adjusted for sporting events declined by –2.4% in 2020.

13 Press release by the Federal Council of 18 June, Coronavirus: Federal Council launches economic policy transitional strategy (German, French and Italian only), accessible at: www.admin.ch > Documentation > Press releases (consulted on: 13.12.2021).

strengthened by improving the economic framework conditions ('revitalisation' pillar).

Developing economies and emerging markets generally have less scope for action than advanced economies in terms of responding appropriately to the COVID-19 pandemic and its implications. Factors such as weak state institutions and framework conditions, an unstable political environment and a large shadow economy restrict the effectiveness and efficiency of government measures. The lack of basic public services, particularly in the area of social safety nets, as well as the limited scope for action of public health authorities in certain countries, make it difficult to enforce strict measures to contain the COVID-19 pandemic. These include, for example, lockdowns, working from home and the introduction of extensive precautionary measures in the workplace.

For people in densely-populated, informal urban residential areas in particular, these measures can result in unacceptable living conditions. This is aggravated by the fact that many people have no savings to speak of and are reliant on income from day-to-day and often work in the informal sector to provide for their families – all of this against the backdrop of a sharp rise in food prices.¹⁴ Meanwhile, the scope for government support measures is limited given the frequent pressures on public finances and the high levels of debt. Developing economies and emerging markets that use their already stretched public funds for urgent immediate healthcare measures and economic support, do so at the expense of other important investments in basic public services and infrastructure, which entails high follow-on costs in the medium term.

1.1.3 The conflicting priorities of short-term crisis response and long-term structural change

Switzerland's international cooperation plays a part in tackling the impact of the COVID-19 crisis in developing economies and emerging markets. According to the OECD's Development Assistance Committee, member states pledged a total of USD 161 billion in official development assistance (ODA) in 2020, which is a year-on-year increase of 3.5%.¹⁵ Since the outbreak of the pandemic, this official development assistance has been an important and steady flow alongside money paid back by migrants (remittances) for developing economies and emerging markets.¹⁶

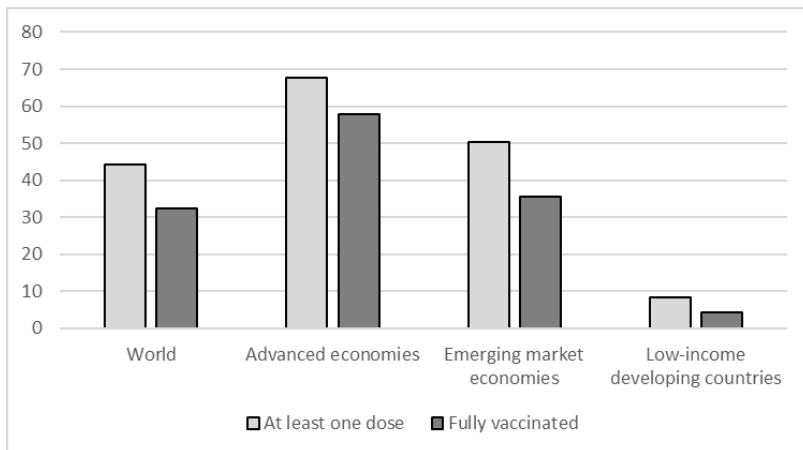
Donor countries shift between short-term crisis response and longer-term structural change in their support. Besides a rapid, unbureaucratic and targeted response to mitigate the direct economic consequences, Switzerland's economic development cooperation therefore also pursues a long-term approach, thereby helping to strengthen the economic adaptability and resilience of developing economies and emerging markets and to prepare them to better tackle future crises.

14 Malpass, David (2021): COVID crisis is fueling food price rises for world's poorest, in: World Bank Blogs, accessible at: www.blogs.worldbank.org > Voices (consulted on: 13/12/2021).

15 OECD (2021): COVID-19 spending helped to lift foreign aid to an all-time high in 2020 but more effort needed, accessible at: www.oecd.org > Newsroom (consulted on: 13/12/2021).

16 The World Bank Group (2021): Defying Predictions, Remittance Flows Remain Strong During COVID-19 Crisis, accessible at: www.worldbank.org > News > Press Release (consulted on: 13.12.2021).

The crisis also presents opportunities for developing economies and emerging markets. The World Bank expected global GDP growth of 5.6% at the end of the year.¹⁷ The crucial factor will be whether this upswing benefits developing economies and emerging markets as well as advanced economies. The basis for this will be favourable epidemiological development and fair and needs-orientated vaccine distribution, and rapid implementation of national vaccination rollouts. Graphic 2 shows the current (as of October 2021) widely varying rates of vaccination between advanced economies and low-income countries.



Graphic 2: Vaccine doses administered by country group: in percentage of the population Source: IMF, World Economic Outlook, October 2021.

There also needs to be a willingness to undertake and realise structural reforms that favour sustainable development. International cooperation can play a supporting role, for example through its current involvement in global health initiatives, such as the multilateral Access to COVID-19 Tools Accelerator (ACT-A) (see section 2.3.1), or by developing institutional frameworks or promoting favourable business environments in developing and emerging economies (see section 2.2).

1.1.4 Switzerland's economic cooperation is well positioned

Switzerland's economic cooperation has so far successfully passed the 'stress test' triggered by the COVID-19 crisis. The crisis drastically changed the already challenging

¹⁷ Compared with the prior year, characterised by sharp declines in growth. Gill, Indermit / Nishio, Akihiko (2021): The global recovery is bypassing the poorest countries, in: World Bank Blogs, accessible at: www.blogs.worldbank.org > Voices (consulted on: 13/12/2021).

field of activity in a short space of time and presented major challenges to donor countries. Switzerland's International Cooperation Strategy for 2021–24 served as an overarching framework for Switzerland, which allowed responding to the pandemic and its consequences to be temporarily prioritised. Economic development cooperation was also closely aligned, both strategically and operationally, with other international cooperation actors and complemented other (foreign) economic policy areas, such as trade policy (see section 2.4).

The challenges of the COVID-19 pandemic described above show that targeted solutions and strategically-aligned action across different policy areas are needed to overcome them. The COVID-19 crisis can only be effectively tackled through a combination of measures, which take account of both the local contexts and the overarching global challenges. Switzerland's involvement is therefore diverse: through its core economic cooperation activities, such as administering public finances and safeguarding the liquidity of SMEs, Switzerland makes a contribution at bilateral level to local populations and businesses through its specific expertise and extensive experience. In this way, it can respond flexibly to their specific needs, adjust priorities and export Swiss solutions (see section 2.2).

At the same time, the global implications of the COVID-19 pandemic are so serious that they can only be combated in the long-term by pooling resources and coordinating measures with those of other countries. Through its membership of the executive boards of multilateral development banks (the World Bank and regional development banks) and the IMF, Switzerland can influence and help shape multilateral initiatives on crisis response, economic stabilisation and recovery. It also plays an active part through other international organisations, such as the UN, the ILO and the OECD (see sections 2.3 and 8).

The COVID-19 crisis has also highlighted the importance of open markets and functioning global value chains for the reliable supply of goods. Many different countries restricted the trade of COVID-19 related goods, thereby compromising the supply of medical equipment and vaccines, particularly to developing and emerging economies. Switzerland is therefore also committed to better coordination of trade policy responses to the COVID-19 pandemic in order to guarantee supply to developing economies and emerging markets (see section 2.4).

1.2 Bilateral COVID-19 measures of Switzerland's economic development cooperation

The COVID-19 pandemic has clearly shown how relevant the working fields of economic development cooperation are to improving resilience to crises. In response to the COVID-19 pandemic, Switzerland's economic development cooperation has put in place various short- and long-term measures as part of its core activities, and redirected some CHF 70 million to COVID-19- related activities within the space of a year.

1.2.1 Measures in international trade and employment

During the COVID-19 pandemic, international value chains faced serious challenges, particularly as a result of interruptions to supply and liquidity problems. Export orders slumped and are only recovering slowly, which has had a knock-on effect on production and employment.

As part of its economic cooperation, Switzerland focused, among other things, on developing digital skills, diversifying production and reducing production costs in order to avoid the closure of production sites where possible. By providing targeted support to business associations, it ensured that they could continue to provide appropriate advice to SMEs and deliver their services, which are essential in such times of crisis. A switch to more sustainable business models is under way. In addition, the COVID-19 pandemic has brought about an increase in online and hybrid forms of learning. To generate income during the crisis, markets and products had to be more diversified, and types of production and export needed to be rethought. A good example of the resilience of local production sites is the textiles industry in North Africa, which successfully switched from garment manufacture to the production of personal protective equipment (PPE), although 90% of factories had been closed in March 2020. Through the *Global Textiles and Clothing Programme* and its activities in the Middle East and North Africa (GTEX/MENATEX programme), which is financed by Switzerland and implemented by the International Trade Centre (ITC), in the six target countries¹⁸ 79 businesses received targeted support and switched to the manufacture of certified PPE, in particular face masks and medical protective clothing. This switch saved many jobs, particularly for women.

The COVID-19 crisis has had a serious impact on employment and working conditions. Several million jobs have been lost worldwide, particularly in emerging economies.¹⁹ Within the framework of bilateral agreements in the area of employment, Switzerland therefore shared its experience on tackling the COVID-19 crisis and its impact on employment, as well as the instrument it uses (e.g. unemployment insurance). The ILO programmes, particularly 'Better Work' and 'Sustaining Competitive and Responsible Enterprises (SCORE)', which are financed by Switzerland, carried out extensive information campaigns on COVID-19 protection in the workplace. 'Better Work' supported and advised factories and workers on health and safety matters in the particularly hard-hit garment industry. Under the call to action coordinated by 'Better Work', collective measures were defined in cooperation with actors from across the global garment industry – governments, international organisations, brands and retailers, manufacturers, employer associations and trade unions – to protect workers from the negative effects of the COVID-19 crisis.

18 Egypt, Jordan, Kyrgyzstan, Morocco, Tajikistan, Tunisia.

19 ILO (2021): ILO Monitor, COVID-19 and the world of work, 7th edition, accessible at: www.ilo.org > Topics > COVID-19 and the world of work > Global impact and policy recommendations > Data and Analysis (consulted on: 13/12/2021).

1.2.2 Measures to support businesses

The COVID-19 pandemic has brought major challenges both for businesses and utility companies. Many businesses were severely affected by lockdowns and other measures in the reporting period. This meant that some businesses were unable to take out new loans or pay back existing ones, which in turn caused some local financial sectors to run into difficulty.

Switzerland's economic development cooperation took various action to support private businesses and utility companies. It extended various projects or restructured them. For example it adjusted the terms for loans from the Start-up Fund offered by the State Secretariat for Economic Affairs (SECO) in order to give struggling businesses more time to repay them. Another example is the Boost Africa programme, which organised a soft and hard development event (hackathon) in response to the pandemic to promote innovative solutions to tackle COVID-19 across Africa. Through this programme, an Egyptian start-up received support to bring a digital platform to market to connect up patients, doctors and pharmacies and to help them ensure prescribed medications are correctly dispensed and taken.

SIFEM AG is the federal government's development finance institution. It supports SMEs and fast-growing businesses in developing economies and emerging markets by providing expertise and long-term financing. During the crisis, it advised financial institutions, for example in the event of liquidity problems, and made additional operating capital available, particularly in Latin America and Asia. This allowed trusted partners and formerly viable businesses to be supported and many jobs to be saved. Thanks to the extraordinary capital increase of CHF 10 million granted in 2020, SIFEM was able to undertake new investments worth CHF 86 million in the reporting period. In times when much less capital is being invested in developing economies and emerging markets, SIFEM was able to perform its important counter-cyclical role. And this is always in light of its mandate to preserve or create jobs. Although many businesses supported by SIFEM – including in India, Cambodia, Nigeria and South Africa – have not as yet had to cut too many qualified and permanent jobs, there has been a sharp decline in temporary positions. SIFEM will therefore continue to play its important role in speeding up the local economic recovery, while integrating one of the most important lessons learned from the COVID-19 crisis: the importance of financial, social and environmental sustainability for the development of resilient private sector companies.

1.2.3 Measures to support a functioning public administration and security of supply

The COVID-19 pandemic has illustrated the importance of a functioning public administration and a sound state budget to be able to respond appropriately to crises. Developing economies and emerging markets with lower levels of debts and broad sources of revenue were able to implement emergency aid programmes for their populations and affected businesses. This was particularly key at the level of municipal authorities, which were especially hard hit by the pandemic as they still had to guarantee public services such as social welfare, water supply, refuse collection and public

transport despite significantly lower revenues. Due to the comparably high risk of infection, the COVID-19 pandemic exacerbated the supply situation, particularly in densely populated towns and cities. In emerging economies in particular, cities are the motors of economic development and promise a way out of poverty for many people. The associated high and often unregulated immigration and urban sprawl mean that local administrations are often unable to guarantee access to water and electricity, and a functioning transport system.

Utility companies took on particular significance during the pandemic, particularly in the area of water supply. Many of the hygiene measures needed to combat COVID-19 rely on the availability of clean water and the proper disposal of wastewater. At the height of the crisis, many water companies were unable to cover their operating costs and guarantee reliable water supply. There were also negative effects on finances, staff and timetables of local transport companies because in some countries passenger transport declined by up to 85%.

Switzerland rapidly stepped up its technical support so that states could better define and finance emergency measures. Bolivia, for example, was particularly hard hit by the COVID-19 pandemic as it is also experiencing a period of political instability. Switzerland approved support for the municipal administrations of La Paz and Santa Cruz de la Sierra, which involved assisting their crisis intervention centres to allow them to continue to perform their duties during the pandemic. This comprised implementing safety measures, risk management, and regulating public transport.

In addition, Switzerland provided support through short-term emergency measures, such as supplying PPE, disposing of infectious waste material from care settings, and planning and implementing precautionary measures and digitalisation activities. The latter included, for example, developing bespoke local methods for early detection of SARS-CoV-2 viruses in wastewater through surveillance.

Switzerland assisted utility companies with financial and operational management and with budget planning, which should equip them to deal with future health crises. Businesses are therefore better able to guarantee the health and safety of employees and customers.

The pandemic triggered structural reforms, including in the area of sustainable urban mobility. Switzerland was therefore also involved in international mobility initiatives. For example, the transport company in Dushanbe, the capital of Tajikistan, is currently benefiting from specific advice on how to restructure public transport and how to integrate innovative solutions to operate in a more needs-based way in future.

Switzerland also supported its partner countries in preparing their state budgets to deal with the financial ramifications of disasters by means of insurance or contingent credit lines. These financial instruments allow the rapid payment of funds in the event of a disaster. Up to now the focus has been on natural disasters, such as earthquakes, but it could easily be adapted to the new pandemic situation. This allowed countries such as Morocco, Serbia and Colombia to mobilise additional funds in a short space of time to finance health measures and to compensate for the loss of tax revenues. Thanks to these contingent credit lines against catastrophic risks provided through the World Bank, these three countries were able to mobilise a total of CHF 500 million at the beginning of the crisis.

1.3 Tackling new global challenges thanks to multilateral cooperation

As well as bolstering its bilateral activities to tackle the COVID-19 crisis, Switzerland also advocates a strong multilateral system. This allows the relevant policy areas to be coordinated, thereby optimising the effectiveness of the resources deployed. The size, scope for action, and expertise of multilateral partners will help mitigate the subsequent risks of the crisis in the years to come. One of the main tasks of the multilateral development banks is to provide technical expertise and support as well as financial resources and to perform a coordinating role in the multilateral system and with partner countries. The COVID-19 pandemic has clearly highlighted the strategic importance of multilateral cooperation to Switzerland.

1.3.1 Switzerland as part of global health cooperation

The health, social and economic aspects of the recovery from the COVID-19 crisis are mutually dependent and call for strategically-aligned action across policy areas. As a highly globalised country, Switzerland is particularly reliant on the world overcoming the pandemic and the global economy making a swift recovery. In the reporting period, the Federal Council and Parliament therefore decided to support the multilateral initiative *Access to Covid-19 Tools Accelerator* (ACT-A), with an additional CHF 300 million, in addition to the CHF 75 million already pledged in 2020, of which CHF 226 million was a supplementary credit granted by Parliament.

ACT-A was launched by the World Health Organization (WHO) and other healthcare actors in 2020. Its aim is to accelerate the development and globally equitable distribution of vaccines, medicines and tests to help the world fight the pandemic. ACT-A also supports efforts of governments that want to strengthen their health systems with regard to the current pandemic response.

A central pillar of ACT-A is the globally coordinated procurement of vaccines via the vaccine initiative COVID-19 Vaccines Global Access (COVAX), established in June 2020. This is led by the Global Alliance for Vaccines and Immunizations (Gavi), the Coalition for Epidemic Preparedness Innovations (CEPI) and the WHO, and is designed to facilitate access to vaccines for all participating countries, including 92 low- and middle-income economies. COVAX had received financial pledges worth USD 9.6 billion by October of the reporting period. The aim of the COVAX facility is to have vaccinated around a fifth of people in the 92 low- and middle-income countries by the end of the reporting period. Switzerland donated CHF 155 million to this effort. The Federal Council also decided to donate 4 million vaccine doses within the framework of the COVAX facility. The World Bank coordinates with COVAX and donor countries to finance vaccine purchases. Besides the international vaccination efforts, Switzerland also supports the important areas of diagnostics and therapeutics. In the reporting period, it therefore participated in the Foundation for Innovative New Diagnostics (FIND) to research and develop new rapid tests, to facilitate market access and to build production capacities in developing and emerging economies.

1.3.2 The multilateral development banks' COVID measures

The multilateral development banks put in place extensive special programmes in a very short space of time after the outbreak of the COVID-19 crisis in the spring of 2020. These special programmes amounted to over USD 260 billion in the spring of 2021. They focused on tackling the pandemic, supporting health systems and social safety nets, protecting economic capital and supplying businesses with liquidity. The multilateral development banks have shown that they can help solve global challenges by rapidly mobilising substantial funds and coordinating the relevant global, regional and domestic actors. They have a global presence and the capability to rapidly adapt their crisis measures to the developments of the pandemic.

Since March 2020, the World Bank has approved USD 10.4 billion for health programmes. These funds help developing countries finance the procurement and deployment of vaccines and strengthen their health systems. The persistent low rates of vaccination threaten the economic recovery in these countries and exacerbate the negative social impact on education and employment.

Vaccine procurement will remain a major challenge in the near term. As part of the broad-based efforts of the World Bank Group (WBG), the International Finance Corporation (IFC) has invested USD 1.6 billion in the supply of COVID-19-related pharmaceutical products, medical devices and healthcare services since the start of the crisis.

The crisis intervention instruments used by the European Bank for Reconstruction and Development (EBRD) in the reporting period focused on the financial and private sectors and on critical services at local level, such as municipal transport companies and energy supply companies. The activities in the EBRD's coronavirus Solidarity Package made up over 20% of its business volume in 2020 – under the Resilience Framework alone, EUR 1.67 billion was pledged for 62 projects, and EUR 1.34 billion had been paid out by the end of the year. For example, the EBRD granted a loan of EUR 40 million to Eurobank Beograd in Serbia so that it could provide additional loans to SMEs across the country via its branch network. The EBRD also expanded its Trade Facilitation Programme, offered its existing clients deferred payment and adapted its technical assistance to help its clients digitalise their services.

1.3.3 Challenges for the multilateral development banks

Crisis packages are designed to provide assistance in situations of acute need and to limit setbacks in the journey to achieving the long-term goals of the 2030 Agenda and the global climate targets. This involves combining short-term crisis response with long-term structural measures. In this way, investment in human capital and infrastructure can be maintained, while contributing to the fight against climate change and biodiversity loss. The actions of the multilateral development banks are orientated along three axes: growth must be sustainable; the resilience of social and economic systems must be increased and relevant risks avoided; and finally, the social inequalities that have frequently been exacerbated by the pandemic must be addressed.

Tackling the crisis has presented the development banks with a series of challenges. The funding requirements in developing and emerging economies are huge, and the banks have succeeded in making available substantial additional financial resources. Their financial capacity has its limits, however: for example, the WBG had to bring forward its replenishment process for International Development Association (IDA - 20) by a year (see section 8).

As a result of COVID-19 contingency financing, the debt levels of many countries are expected to rise further – a trend that was already observed before the outbreak of the pandemic. For the banks, rapid payment of loans and grants also means additional risks with regard to sustainability and complying with standards that have to be monitored. Ultimately, the high demand in the healthcare sector has led to a crisis-driven expansion of the action area. However, this should not result in mandate extensions or strategic fragmentation in future. Limited resources require selectivity and good coordination between the various actors.

1.3.4 Switzerland in the multilateral development banks and IMF

On the executive boards of the multilateral development banks and within the G20, Switzerland advocates the effective and sustainable use of funds within the framework of the mandates of the relevant multilateral development bank. It encourages them to combine short-term crisis response measures where possible with long-term measures that promote a sustainable, resilient and inclusive economic recovery.

Because funds for immediate crisis response usually need to be paid out quickly, a close eye must be kept on the risks and in particular compliance with environmental, social and governance standards during implementation of the project and programme. Efforts also need to be made to ensure that grants and loans contribute to productivity and in the longer term do not merely result in more debt for countries. Finally, Switzerland is calling on the multilateral development banks to systematically coordinate with other development actors, including the UN, the IMF, the OECD, civil society, and the private sector, to guarantee a coordinated approach and efficient use of limited public funds.

Switzerland provides financial support to the IMF's special programme for the world's poorest countries – the Poverty Reduction and Growth Trust (PRGT). Since the beginning of the reporting period, it has granted the PRGT a loan of 500 million special drawing rights (equates to approx. CHF 650 million). This credit line, which is provided by the Swiss National Bank, is granted with a federal guarantee. In addition, Switzerland already contributed CHF 25 million to the IMF's Catastrophe Containment and Relief Trust CCRT in 2020, thereby enabling the IMF to provide debt relief to 29 of the world's poorest countries. It is also involved in internationally coordinated initiatives to strengthen debt sustainability and transparency in developing and emerging economies, such as the IMF, the World Bank, the G20, and the Paris Club, an informal group of creditor countries whose role is to find workable solutions to the payment difficulties experienced by debtor countries. It supports the Common Framework to facilitate coordinated treatment of the debts of poorer countries in a timely,

coordinated and orderly manner,²⁰ and the Debt Service Suspension Initiative (DSSI) which helped poorer countries concentrate their resources on fighting the pandemic between May 2020 and the end of 2021.²¹

1.4 Interdependency between trade, health and development

Worldwide access to medical supplies and vaccines is a key element in overcoming the global health crisis. This is because the progress made in the healthcare sector also dictates the speed of the economic recovery in developing and emerging nations. In order to ensure optimal production at global level, trade policy in general is crucial, and not only in terms of specific measures for developing and emerging economies (see section 2.3.1). In the reporting period, Switzerland therefore advocated better coordination of trade policy measures in connection with the COVID-19 pandemic in order to ensure supplies of basic medical equipment and vaccines to developing and emerging nations.

The outbreak of the COVID-19 crisis highlighted the fact that trade policy measures in response to the pandemic are not sufficiently coordinated throughout the world. At the end of the reporting year, the WTO recorded a total of 399 COVID-19 trade and trade-related measures in goods that had been put in place unilaterally by its members. Two thirds of these were of a trade-facilitating nature. However, of these, 137 could be considered trade-restrictive and are often implemented in the form of export restrictions. These measures affected access to markets, the functioning of value chains, and general supply of medical equipment and vaccines, particularly in developing economies and emerging markets. At the end of the reporting year, over half of the trade-restrictive measures had been lifted.

Against this backdrop, discussions on trade and health intensified throughout the reporting period, with this topic meant to be one of the focal points of the 12th WTO Ministerial Conference. Regrettably, the Ministerial Conference had to be postponed again due to the pandemic. The discussion around trade and health continued until the end of the year.

The WTO's preparatory work showed that all members recognised the importance of the WTO and a functioning multilateral trade system to overcome the COVID-19 crisis. The discussions and the spectrum of the views expressed in the various processes rapidly made clear that a comprehensive approach is needed that is based on the following three pillars: (1) ensuring value chains function smoothly, (2) strengthening cooperation between the public and private sector, and (3) addressing topics related to the protection of intellectual property.

20 Paris Club (2020): Common Framework for Debt Treatments beyond the DSSI, accessible at: www.clubde-paris.org > Archives 2020 > Endorsement with the G20 of a Common Framework to Coordinated Debt Treatments > Attachments (consulted on: 13/12/2021).

21 The World Bank Group (2021): COVID 19, Debt Service Suspension Initiative, accessible at: www.worldbank.org > Understanding Poverty > Topics > Debt (consulted on: 13/12/2021).

In the discussions on formulating a trade and health package in view of the planned WTO Ministerial Conference, Switzerland advocated a holistic approach, in close collaboration with like-minded WTO member countries. Switzerland systematically pursued the goal of increasing production capacity for medical supplies, particularly vaccines, and facilitating their distribution, especially in developing countries. With regard to the first pillar – value chains – the Ottawa Group²², of which Switzerland is a member, proposed a package of measures in the reporting period designed to facilitate the supply of medical equipment and at the same time guarantee open markets. This includes limiting export restrictions, trade-facilitating measures, and transparency of trade measures put in place in response to the pandemic.

On the second pillar – cooperation between the public and private sector – the goals were the following: (a) facilitate partnerships between private sector actors and promote voluntary technology and knowledge transfer, and (b) increase transparency related to value chains, including production capacities, available stocks, bottlenecks and other risks along these chains. The Director-General of the WTO initiated a dialogue with the private pharma sector to increase production capacities for vaccines. In terms of public-private cooperation, Switzerland took part in discussions, particularly on the topics of transparency and monitoring of value chains.

Several proposals regarding the third pillar – intellectual property – were also discussed in the reporting period. For example, a waiver of certain sections of the WTO TRIPS Agreement of 15 April 1994²³ on trade-related aspects of intellectual property rights was proposed by India and South Africa in the context of the pandemic, and has been discussed since October 2020 (TRIPS Waiver). Switzerland has emphatically stressed how important the protection of intellectual property is to innovation in the pharma sector and to public health. It strongly believes that global, fair, affordable and rapid access to vaccines, medicines and diagnostic devices to tackle COVID-19 calls for close and harmonious cooperation between all actors involved, and an integrated approach. This also concerns trade measures that affect access to health technologies (e.g. export restrictions).

Against this backdrop, Switzerland welcomes the European Union's counterproposal to clarify certain provisions on compulsory licensing in the TRIPS Agreement so that the flexibility mechanism envisaged for the pandemic can be applied more easily. However, Switzerland opposes the TRIPS Waiver. But it is willing to continue talks on fair and equitable access to COVID-19 vaccines and on compulsory licensing.

1.5 Conclusion

The COVID-19 crisis is accentuating existing structural problems in developing economies and emerging markets, putting pressure on public finances, and further increasing the need for reform and financing. Unlike Switzerland, for example, developing and emerging economies have much less resilience and scope for action to mitigate

22 Australia, Brazil, Canada, Chile, the EU, Japan, Kenya, Mexico, New Zealand, Norway, Singapore, South Korea, Switzerland and the United Kingdom.

23 SR 0.632.20, Annex 1C.

the negative effects of the COVID-19 crisis. The crisis has set back years of development progress in some particularly hard-hit regions, with significant implications for food security, jobs, inequality, security and education. Political institutions are in some cases under pressure, with the crisis influencing the policy cycle. Calls for new strategic focuses in economic policy could increase. Overall, the situation in developing economies and emerging markets is expected to remain volatile, and the risk of debt distress in particular continues to grow. As of October 2021, the IMF had 36 low-income countries on the list of countries that are at high risk of debt distress or that are already heavily indebted (HIPC: heavily indebted poor countries).

Overcoming the pandemic and the global economic recovery are inextricably linked. This is particularly true for a highly globalised country like Switzerland. The COVID-19 crisis has shone a light on the significance of global integration, not only in relation to health, but also with regard to economic and trade policy links. It has also highlighted the importance of digitalisation and revealed the digital divide between advanced and developing economies.

Switzerland's international cooperation has therefore stepped up and adapted its activities in coordination with other policy areas. In this context, economic development cooperation has demonstrated its strengths and is characterised by its integration within the Federal Council's Foreign Economic Policy Strategy and Foreign Policy Strategy. It makes a contribution at bilateral level to the population and businesses in developing and emerging economies and gears its activities to two focus areas: promoting reliable economic framework conditions and engaging with the private sector in creating and preserving decent jobs. Employment promotion is one way to respond to social inequality. At the same time, Switzerland is committed to a strong multilateral system, which will allow policies to be coordinated and the effect of financial commitments to be optimised. Switzerland works to ensure that successful bilateral solutions of development partners are replicated on a broad scale, for example in multilateral development bank programmes. Conversely, Switzerland uses knowledge and expertise developed in multilateral organisations in its bilateral projects. Enhanced cooperation with other states in bodies such as the OECD and the UN is just as crucial to Switzerland as partnerships with actors from civil society and the private sector.

Besides development policy measures, overcoming the COVID-19 pandemic and its implications will require a coordinated approach that spans different policy areas. Trade policy is particularly key. In the interests of policy coherence, Switzerland advocates better coordination of trade policy responses to the COVID-19 pandemic in order to guarantee supplies of crucial medical equipment and vaccines to developing countries. It actively participated in the talks on fair and equitable access to COVID-19 vaccines in view of the planned 12th WTO Ministerial Conference (see section 2.5). Rapid progress in the vaccine rollouts of developing economies and emerging markets is crucial to global health and to the worldwide economic recovery.

The COVID-19 is putting the current approach to global international cooperation to the test. International cooperation faces a multitude of crises and challenges – including poverty, climate change, fragility and inequality – whose impacts do not stop at national borders. COVID-19 has temporarily shifted the focus to activities in the healthcare sector and measures to support the economy, to the detriment of other,

long-term development sectors whose effects on the economy and society are still difficult to gauge. The simultaneous challenge of short-term crisis response and long-term structural change within the framework of the Sustainable Development Goals in the 2030 Agenda will continue to occupy Switzerland's international cooperation.

Equally, the COVID-19 crisis poses a major challenge to international financial architecture. In view of the debts caused by COVID-19, which are having a severe impact on many donor countries, budgetary pressure to set to increase. There is no clear picture as yet in terms of the level of public development funds in the reporting period. Certain donor countries announced that they would be cutting their development spending in relation to 2020 levels, while others planned to increase it.²⁴ Besides international support, it is the responsibility of developing and emerging nations to carry out the appropriate reforms to increase their resilience and to create scope to respond to future crises. International cooperation can mitigate effects and provide impetus, but it cannot replace domestic and local reforms.

Switzerland's economic development cooperation is well placed in this dynamic context. Switzerland's International Cooperation Strategy 2021–24 allowed tackling the COVID-19 pandemic and its effects to be temporarily prioritised. Alongside a rapid and targeted response to mitigate the direct economic consequences, Switzerland is also pursuing a long-term approach in line with the goals of the 2030 Agenda and is helping to ensure that developing and emerging markets are better able to tackle future crises. Thanks to its commitment at both bilateral and multilateral level, and the coordination within its international cooperation and with other policy areas, Switzerland should continue to be seen as a credible and influential partner.

24 Center for Global Development (2021): Global Trends in 2021, How Covid-19 Is Transforming International Development, p. 12–13, accessible at: www.cgdev.org > Publication (consulted on: 13/12/2021).