Inclusive Growth as the key to poverty reduction

SECO is the Swiss Confederation’s center of expertise for all core economic policy matters, including economic cooperation and development. It assists a number of selected developing and transition countries in implementing their economic and trade-policy measures. With the 2017-2020 framework credit, SECO seeks to foster sustainable, inclusive growth in its partner countries as a way to reduce poverty and mitigate global risks such as economic and financial crises and climate change. By helping to improve prospects in its partner countries, SECO also addresses some of the causes of migratory flows.

While a number of developing and transition countries have experienced significant growth in recent years, the gap between rich and poor has widened in many cases. To a certain extent, disparities will always exist in a rapidly growing economy. However, unless such growth creates sufficient jobs, it cannot contribute much to long-term poverty reduction.

Wide income disparities pose a threat to both social cohesion and political stability and, over time, may also limit economic output. It is thus more important than ever to ensure that all sectors of the population benefit from economic growth. This is where SECO applies its core competencies in economic cooperation and development.

Focus on poverty and global risks

With a view to maximizing its impact in the years 2017-2020, SECO will focus its development activities on achieving sustainable and inclusive growth. Such growth should address economic as well as social and environmental aspects and not compromise the well-being of future generations. In doing so, it should contribute to reducing poverty and the impacts of global risks. It enables the private sector to create new jobs and the State to provide adequate public services. Sustainable, inclusive growth does not come automatically: SECO is thus working to make it a reality.
Examples of projects

Ghana: Tax reform to combat poverty
Tax revenues give the State the resources it needs to run hospitals, build roads and hire teachers. SECO is thus assisting Ghana with expertise and IT infrastructure to set up a fair and efficient tax system. Among other things, revised legislation and simplified tax rates have helped to lower tax losses and broaden the tax base (target outcome 1).

Better Work Programme: Humane Working conditions
The garment industry is a leading source of employment in developing countries such as Myanmar. Often, however, companies do not comply with international standards. SECO thus supports the Better Work Programme of the International Labour Organisation (ILO) and the International Finance Corporation (IFC). Better Work strives to achieve independent monitoring of labour standards and advises businesses on how to improve their workplaces (target outcome 2).

Indonesia: Higher value added in cocoa production
Cocoa is a major export product of many developing countries. Often, however, only a small minority of people benefit from the farming and sale of cocoa beans. In Indonesia, SECO is helping to build the management and organisational capacities of small cocoa farmers, thereby ensuring more stable incomes that will also benefit their families. Through the involvement of international cocoa firms, SECO’s program also provides expertise from the private sector (target outcome 3).

Tajikistan: A more sustainable energy supply
In Tajikistan, SECO has helped to improve the reliability and sustainability of access to energy. The power grid has been renovated and a new pricing system introduced. Subsidies have been made available to ensure that the poorest in society also benefit from improved access to energy (target outcome 4).

SECO’s target outcomes for 2017–2020
SECO’s work is centered on four target outcomes (see diagram and boxes), derived from the 2030 Agenda for Sustainable Development.

1. Effective institutions and services
Sustainable, inclusive growth requires effective institutions and services that benefit all sectors of the population. Without legal certainty or a functioning water supply, for example, small companies find it very difficult to build their business and create jobs. On the other hand, the responsible management of public finances and investments and a well-developed financial sector have a positive impact on a country’s economic output, which helps to reduce poverty.

2. More and better jobs
More and better jobs are key to generating economic development that will be as inclusive as possible. A decent job is the most effective means of combating poverty. However, apart from the business environment, companies need access to sources of funding and to people with the right skill sets. At the same time, the jobs created need to meet certain minimum requirements so as to offer a safe and humane working environment.
3. Enhanced trade and competitiveness

Long-term growth is only possible with trade activities and a competitive economy. Nowadays, goods pass through a complex system of value chains in different countries before reaching the end-consumer. However, developing countries often fail to benefit from the high-income stages in a product’s value chain. If the right economic framework conditions are in place, SMEs can steadily increase their productivity, and more of the lucrative production stages with higher value creation can be performed in SECO partner countries.

4. Low-emission and climate-resilient economies

Climate change is one of the greatest challenges facing our civilization. Developing countries are particularly exposed to this risk and feel more of the consequences of extreme climate events than industrialized countries. It is the poorest in these countries that are the worst affected by flooding and other such disasters. Climate-relevant strategies include measures to reduce greenhouse gases as well as measures to adapt to the consequences of global warming. The measures focus on cities, as these produce high levels of climate-relevant emissions and are (steadily) growing in size.

Switzerland’s interests

Switzerland has many years of experience in providing countries and their people with effective support for dealing with development and transition processes as well as humanitarian crises. It does this out of:

- solidarity – because no country can overcome poverty and global challenges on its own
- responsibility – because Switzerland is a responsible member of the international community of nations
- own interest — because, given its international interrelatedness, Switzerland’s security, prosperity and standard of living are affected by political, economic and environmental and social developments worldwide.

Taking an approach of sustainable and inclusive growth, SECO’s economic development cooperation contributes to the general objective of Switzerland’s international cooperation, i.e. reducing poverty and global risks and promoting peace and human rights, with a view to achieving sustainable development. This approach is incorporated into the seven strategic goals of Switzerland’s international cooperation and foreign economic policy.
Focus on middle-income countries

SECO continues to operate in selected priority countries in the South and the East. Its focus is on middle-income countries (MICs), where 70 per cent of the world’s poorest people live. The issues of poverty and inequality in MICs have gained ground in recent years. The same applies for environmental and climate risks, which MICs frequently face.

SECO selected its priority countries for the 2017-2020 framework credit on the basis of an effectiveness and country analysis.

As a result, Switzerland has retained the eight priority countries in the South. The number of priority countries in the East has been reduced from nine to five.

**South:** Colombia, Egypt, Ghana, Indonesia, Peru, South Africa, Tunisia, Vietnam

**East:** Albania, Kyrgyzstan, Serbia, Tajikistan, Ukraine

Complementary measures in other countries

SECO’s specific expertise is also made available as a complementary measure outside of its own priority countries in the context of activities by its partners in the Swiss Confederation, particularly the Swiss Agency for Development and Cooperation (SDC) (e.g. the Better Work Programme in Myanmar, see page 2). Such complementary measures will be intensified in comparison with the 2013-2016 period. In its former priority countries in the East, SECO will continue to operate by way of complementary measures.

Leverage effect through multilateral cooperation

Multilateral partners like the development banks are key players in international cooperation. They have the technical expertise and financial volume, the weight and the experience to successfully coordinate and implement measures, particularly in relation to global themes. They thus make an important contribution to poverty reduction and have a substantial impact on international cooperation. SECO acts as Switzerland’s liaison body for the multilateral development banks, such as the World Bank, and contributes to establishing their strategic and operational orientation. In association with other relevant federal agencies, SECO defines Switzerland’s strategy in the various decision-making bodies. Switzerland also enters into strategic partnerships with multilateral organisations for certain specific topics (such as water or climate) and contributes to initiatives such as the Green Climate Fund, which finances climate projects in developing countries.

Cross-cutting themes

The two cross-cutting themes of Swiss international cooperation are systematically taken into consideration in all projects:

1. Gender equality
2. Economic Governance

The effectiveness of the projects can be optimised by consistently focusing on these themes. Unequal treatment of men and women has serious consequences, in both social and economic terms. Regarding governance, SECO concentrates on economic measures to improve the transparency and efficiency of economic processes.

Accountability and institutional learning

As a public-sector player operating in a high-risk environment, SECO places great importance on accountability and measuring effectiveness. A systematic quality assurance system, continuous risk monitoring and results-driven management ensure the effectiveness of measures in the partner countries (success rate: 78% between 2005 and 2014). Project evaluations form the basis for SECO’s accountability to Parliament and the general public. These provide important information on whether the various interventions are successful and where improvements may be made.