NORWEGIAN MINISTRY
OF FOREIGN AFFAIRS

Report

# Global Partnerships for Development

## Millennium Development Goal No 8

## Progress Report by Norway 2004

# CONTENTS

*Children at school in in Mtwara, Tanzania*

Photo: Howard Davies, CORBIS

# FOREWORD

Four years ago, world leaders did something they had never done before. They agreed on a set of goals to improve living conditions for the world's poorest. They made a road map for fighting poverty, and they made a commitment to clear deadlines and measurable results. Today, the Millennium Development Goals (MDG) have become our common yardstick and a backdrop to all our development efforts.

The eight goals, which are to be achieved by 2015, in effect strike a global bargain between developing and developed countries. Many of the goals cannot be reached unless developing countries succeed in creating a national environment that allows full realisation of the potential of development assistance. Protection of human rights, promotion of good governance, strong measures to fight corruption, administrative reform – these are all crucial components of an enabling national environment. A developing country that lacks the political will to put its own house in order, or neglects its most vulnerable groups, is not very likely to succeed in the fight against poverty.

But the Millennium Development Goals also address the responsibility that rests with the developed world. More and better aid is necessary to reach our goals. The Millennium Development Goals make it clear that the developed world has a responsibility that goes beyond merely increasing aid. More resources, better coordination and better alignment to country policies by donors and agencies will take us closer to our goals. But this is not enough. In order to make serious headway, we need to consider our own policies – all of them.

We must consider how our policies in areas traditionally kept outside the realm of development policy influence the situation of the world's poorest. Reform of the international framework for trade and investment, debt restructuring, coherence in our national policies – these are all issues that need to be addressed and acted on if we are to reach our ambitious goals for the poor. Unless we take this challenge seriously, in deed as well as in word, the developed world will continue to take back with one hand what it has given with the other. And the Millennium Development Goals will forever remain out of reach.

The good news is that this message of change is reaching the mighty and powerful of this world. The MDGs are focusing our collective attention in a way we have never seen before. That gives the world hope that the fight against extreme poverty can be won. We have mobilised more resources. We have started changing our practices and adjusting our policies. We see now that the outlook for the poorest in the world is better since the introduction of the MDGs. The prospects are brighter, but we have a very long way to go.

The MDGs require each country, each government, in the developed as well as the developing world, to examine how its policies can best support the fight against poverty. Coherence is critical, both in the North and in the South. And the burden here is first and foremost on us, the rich countries of the world. This means taking a hard look at our own policies, and making sure that they reflect the commitments we have made. This means having sufficient capacity to sustain a national debate not only on the effects of particular policies, but also on how they can be adjusted and changed.

All governments need watchdogs to assist in this effort. NGOs, the media, research institutes, universities and others can direct our attention to areas of concern, and push for change. We need an environment that encourages an active public debate on how we can best reach our goals, an environment that enables us to identify inconsistencies and intensify the public focus on the MDGs.

This MDG8 report is a contribution to this public debate, as well as a summary of Norway's MDG performance for the United Nations and our partner countries. This is our first report in what we hope will be a series of reports on our progress in areas of importance to poverty reduction.

Norway will continue to advocate that more such reports be published. We need reliable and comparable information from all countries. And together with Denmark, the Netherlands and Sweden, we will encourage more countries to present their MDG8 reports in advance of next year's MDG Summit in the United Nations. This will enable the Secretary-General to take stock of our MDG progress in a comprehensive way. It will also give us valuable information and inspiration to intensify our MDG efforts. I am pleased to present Norway's contribution, and hope that this report will be followed by a number of MDG8 reports from other countries in the months to come.

Hilde F. Johnson
Minister of International Development

# 1. INTRODUCTION

## 1.1 The Millennium Development Goals – A Global Bargain

1. Eradicate extreme poverty and hunger.
2. Achieve universal primary education.
3. Promote gender equality and empower women.
4. Reduce child mortality.
5. Improve maternal health.
6. Combat HIV/AIDS, malaria and other diseases.
7. Ensure environmental sustainability.
8. Develop global partnerships for development.

The UN Millennium Development Goals (MDGs)[1] address some of the most crucial problems that poor people and countries are up against and help direct their development and poverty reduction strategies at solving these problems. They also indicate to rich countries where they should focus their attention and development assistance. This makes the MDGs a framework for an unprecedented global bargain with clear performance criteria for all parties.

The first of the MDGs has a broad scope and entails action that is essential to achieving all the other seven goals. Thus eradicating poverty means, for example, that developing countries must create a sound macroeconomic environment and improve governance in order to facilitate pro-poor growth. It also means that rich countries must support their partners in these efforts.

Achieving the MDGs requires far more than development assistance, although in most cases such assistance is a necessary component. Comprehensive efforts have to be mobilised if progress is to be made in realising the eight goals, the 18 targets and the 48 indicators, and such efforts must be given top priority in national political processes. Normally parliamentary budget debates have a very strong influence on policy. Therefore in its dialogue with partner governments, Norway encourages them to make the MDGs part of their national poverty reduction strategies (PRS) and to seek to ensure that the priorities of these strategies guide the priorities of the annual budget that is submitted to parliament. Norway also encourages governments to involve civil society in discussions on priorities and ways of achieving the goals.

## 1.2 Background

MDG8 is the goal that most clearly addresses the issue of what the OECD countries can do to contribute to poverty reduction and the achievement of the other seven MDGs. In the following chapters we attempt to show how far Norway has come in its efforts to reach the seven targets of MDG8 and target 9 of MDG7 (which is about optimal energy use, maintaining biological diversity and combating climate change).

*Policy coherence for development*

MDG8 targets specific issues that are crucial in the fight against poverty. However, establishing a more just and equal relationship between developed and developing countries on a global basis requires developed countries to adopt a broader agenda. This has become known as "policy coherence for development", or PCD, and means that both developed and developing countries should ensure that the relevant policies do not have side effects that undermine the fight against poverty. Relevant policies in this context are those in the fields of trade, environmental protection, both local and global, migration (e.g. in connection with remittances, brain drain and brain gain), technology transfer, knowledge development and capacity building, security issues, investment and development assistance. These aspects of PCD are core elements of Norwegian development policy and this is therefore one of the main pillars of the new Norwegian white paper on development policy, *Fighting Poverty Together*, Report no 35 to the Storting (2003 - 2004).

In March 2002, the government decided that the ministries should engage in a dialogue on aspects of their policies that could have an adverse effect on poor developing countries. Currently four ministries are involved in the dialogue, and more are to follow. There are also plans to draw up an indicative checklist for use in the relevant ministries, based among other things on the OECD/DAC *Guidelines for Poverty Reduction*. A network of key persons dealing with PCD issues in all the relevant ministries will be established. The Department for International Development Policy at the Ministry of Foreign Affairs has overall responsibility for activities in this field.

[1] http://www.un.org/millenniumgoals

Compiling a checklist for policy coherence adapted to Norwegian conditions, and establishing a better empirical basis for the dialogue between the ministries, require more knowledge than we have today about the impact of different policies on the situation in poor countries. This also applies to the international debate on this issue. However, the OECD has long experience of working on policy coherence and capacity for research in this field. It has already launched a Horizontal PCD Programme and a Round Table for sustainable development. Research is also being done by other institutions. Norway would like to see the OECD, where all major donor countries are represented, take a leading role in this field. The organisation could be the hub of a network of research institutions, facilitating discussions on priorities and co-ordinating what has been done and what still needs to be done. Our impression is that the information gaps are so considerable that the most efficient approach would be to start by exploring a limited number of areas where policies are expected to have the greatest impact.

Norway also believes that the OECD is the organisation that is best suited to act as a centre for compiling and publishing information on member states' performance on policy coherence. We recognise the need for the time being for OECD members to publish their own reports and also the significance of the EU's planned MDG8 reporting, and we realise that some MDG8 reporting will also be undertaken by UNDP and other UN bodies. On the other hand we feel that MDG8 reports should be based on statistics that are accurate and comparable, so that progress on the various indicators can be charted and the rich countries' contributions to the fight against poverty can be compared. Work on the present report has shown, however, the need for a closer dialogue with the OECD on how to improve the statistics and to clarify exactly what the reported figures represent.

*Rich natural resources can provide a good basis for development in many developing countries*

Photo: William Campbell, CORBIS

# 2 GOALS AND TARGETS TO BE MET BY DEVELOPED COUNTRIES

## 2.1 Development assistance and aid effectiveness

*Table 2.1 Development assistance*

| Indicators | 1990 | 1995 | 2000 | 2002 |
|---|---|---|---|---|
| Net ODA, total, as a percentage of GNI * | 1.17 | 0.86 | 0.76 | 0.92 |
| Net ODA to LDCs as a percentage of GNI * | 0.52 | 0.35 | 0.26 | 0.33 |
| Percentage of total bilateral, sector-allocable ODA to basic social services (basic education, primary health care, nutrition, safe water and sanitation) ** | .. | 10.7 | 14.8 | 15.1 |
| Percentage of ODA to landlocked countries | 20.7 | 19.8 | 17.0 | 20.6 |
| Percentage of ODA to small island developing states | 1.5 | 1.3 | 1.2 | 0.9 |
| Proportion of multilateral ODA (% of total net ODA) | 37.3 | 27.1 | 26.1 | 32.5 |
| Proportion of untied bilateral ODA (%)*** | 61.3 | 77.0 | 97.7 | 99.1 |

Source: OECD

* In 1995 Norway began using new guidelines for national accounts, which resulted in a 10 per cent upward adjustment of GDP. Figures for ODA/GNI before and after 1995 are therefore not directly comparable.

** Calculated as two-year averages, for 1997-98, 1999-2000 and 2001-02.

*** Proportion of bilateral aid covered under OECD's untying recommendation.

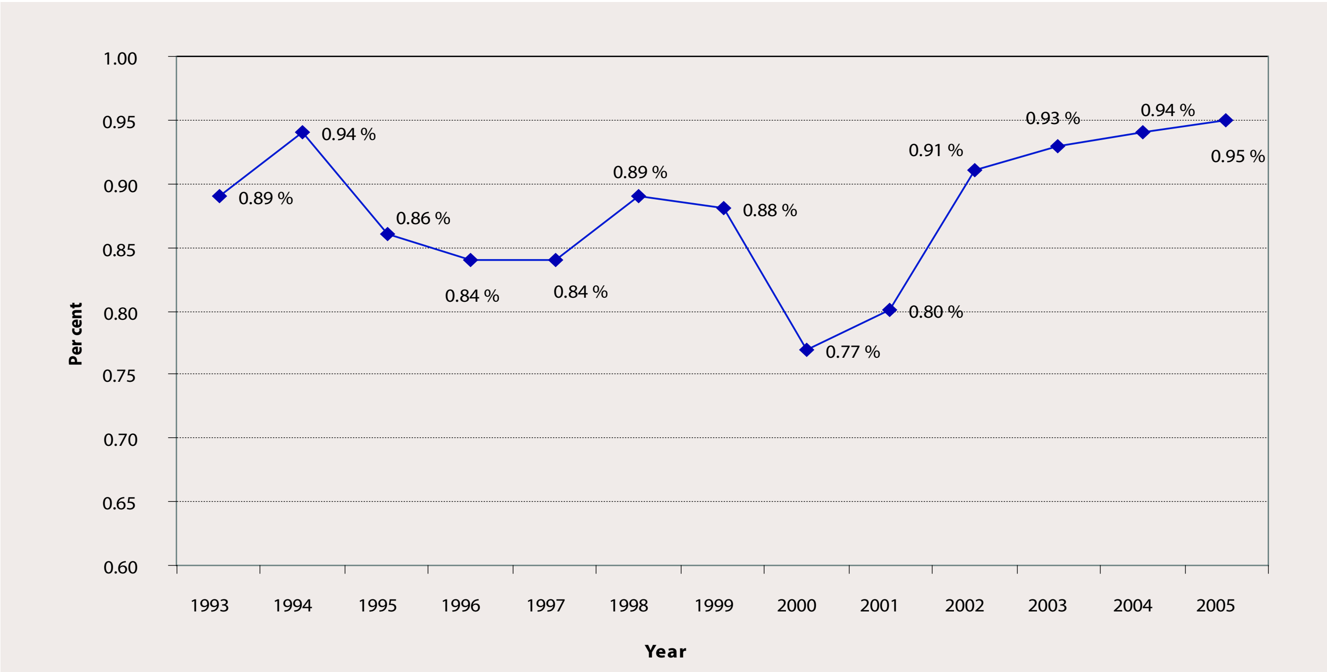
### *Status and trends*

Increasing development assistance is absolutely necessary if we are to reach the MDGs. The OECD/DAC and the World Bank have calculated that there is a need for an immediate increase in ODA from the 2002 level of about USD 58 billion to about USD 100 billion, and that this level must be maintained beyond 2015 if the goals are to be reached. In addition assistance must be delivered in more efficient ways and it must be better aligned with partner countries' development and poverty reduction strategies.

At the Financing for Development Conference in Monterrey in 2002, the rich countries committed themselves to increasing aid volumes significantly in the years to come. And they seem to be following up on this. According to the OECD, in 2003 assistance had reached USD 68.5 billion, the highest level ever. However, the average ODA/GNI ratio for OECD countries was only 0.25 per cent in 2003, still far below UN's recommendation of 0.7 per cent. The Monterrey conference also recognised the importance of finding new and innovative financing mechanisms for development. Several creative initiatives have surfaced since and are being followed up in the international dialogue.

Norwegian development assistance has remained at a relatively high level for a long time. Norway was among the first countries to reach the UN goal of 0.7 per cent of GNI, and the volume of assistance has since been kept above that level. As shown in Figure 2.1, there have been some fluctuations in the aid level over the years. Some of these are due to the fact that actual GNI may differ from projected GNI, not least because of changes in world oil prices, which have a decisive impact on Norway's GNI. Others are due to the shifting priorities of various governments and one to the adjustment in GNI that was made in 1994-95. This is not a controversial issue in Norway, since there has always been strong support for a high level of development assistance across the political spectrum and among the population in general. The government's goal is to increase Norwegian ODA to 1 per cent of GNI and to keep it at least at that level throughout the next parliamentary period of 2005-2008. Norway also achieved its target of allocating 40 per cent

*Figure 2.1 Total assistance from Norway 1993-2004. Per Cent of Gross National Income (GNI)*




of bilateral development assistance funds to the least developed countries in 2002 and has retained it since then. Additional targets for assistance to low-income countries and/or to Africa are now being considered.

In addition to more development assistance, much more resources can be made available through new reforms in development co-operation. This was stated in the Rome Declaration on Harmonisation of 2003 which was adopted by all bilateral and multilateral donors. There is also a need for more effective and efficient delivery of development assistance. Poverty reduction strategies in developing countries are now being more closely aligned with the MDGs in terms of priorities, and in an increasing number of cases these priorities are influencing annual budgets. We are also seeing a gradual improvement in governance and the management of public finances. This means that we should make our development assistance more flexible and more closely adapted to the new realities than for example traditional donor-driven projects have been. The forms of assistance that seem to be best suited to supporting national poverty strategies and budgets and to strengthening the sense of national ownership are budget support and sector programmes. When it is considered advisable in a particular partner country both regarding needs and fiduciary concerns, these types of assistance are gradually replacing project support as the main forms of Norwegian development assistance.

This is also fully in line with the Rome Declaration. The main objective set out in the declaration is to assist partner countries to take charge of their own development by fostering country ownership and government leadership and through alignment with partner country priorities, systems and procedures. This has for many years been a basic principle of Norwegian development co-operation, which has been guided by *national ownership* and *recipient responsibility*. Norway is also an active and longstanding participant in donor harmonisation efforts with regard to many countries, in budget support groups, sector programmes and in other kinds of joint financing arrangements.

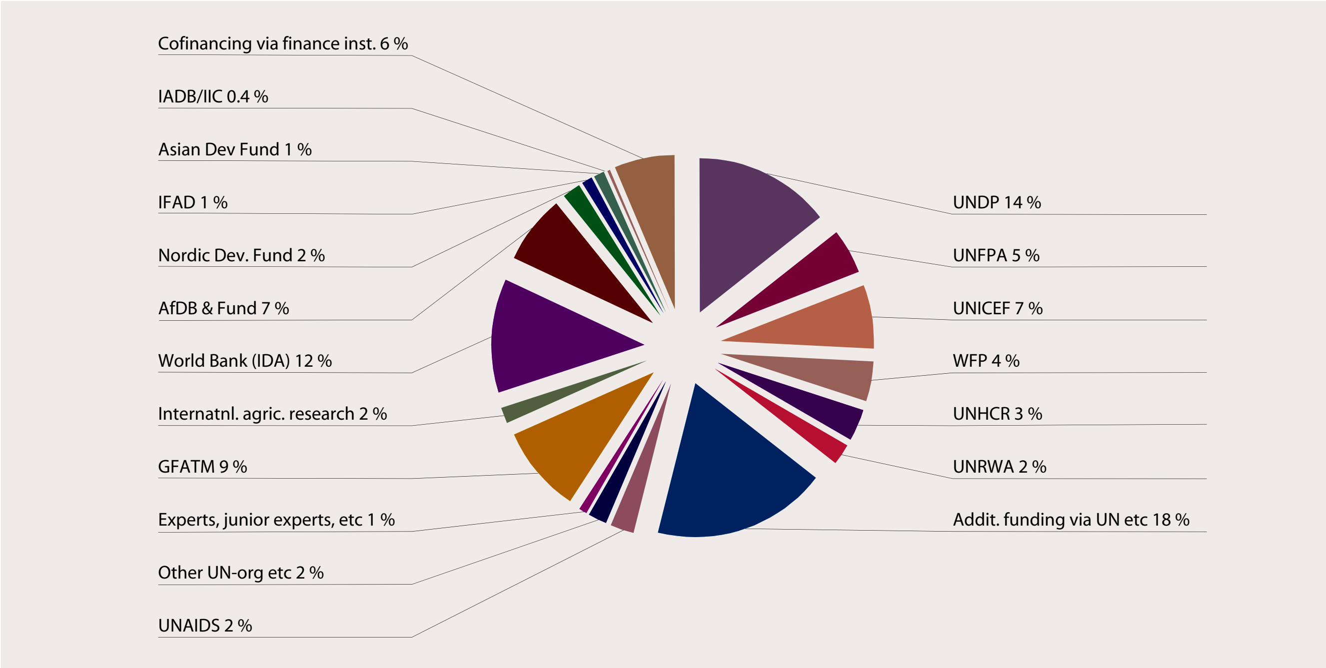
The Nordic Plus[2] Joint Action Plan on Harmonisation is partly a response to the commitment made under the Rome Declaration to developing national action plans for harmonisation. Guidelines and a template for joint financing arrangements have been developed. Norway will draw up an action plan on following up the Joint Action Plan, which will also include other efforts to promote harmonisation and alignment.

Norway participates actively in the OECD Working Party on Aid Effectiveness and Donor Practices and its five underlying processes (harmonisation and alignment, public financial management, managing for results, procurement, and untying). In these processes Norway strongly emphasises the importance of alignment and active participation by partner countries in the development of guidelines, reference papers and indicators.

Norway has extensive co-operation with seven main partner countries. Another 18 partner countries are assisted through regional budget allocations. A limited number of other countries also receive assistance from Norway. Most of them are in Africa and Asia. Several of the countries receiving development assistance from Norway are under some form of stress, for example Af-

[2] The Nordic Plus group consists of all the Nordic countries, except Iceland, plus the United Kingdom, Ireland and the Netherlands.

*Figure 2.2 Contributions to multilateral org. Budget for 2004 (Total: NOK 4,890 mill.)*




ghanistan, Nepal, Sri Lanka, the Palestinian Area, Iraq and some of the Balkan countries.

Norway is a strong supporter of the United Nations and other multilateral organisations. Norway is the fifth largest contributor to the UN system, including funds, programmes and specialised agencies, and gives particular priority to UN activities designed to help achieve the MDGs. In 2002 about 50 per cent of Norwegian development assistance went to or was channelled through multilateral organisations. Norway is the second largest contributor to UNDP and the third largest to UNAIDS. We are the fourth largest contributor to UNICEF, and the third largest to UNFPA (2003). Furthermore, Norway is the third largest donor to UN-HABITAT, and the fourth largest to WHO. The distribution of the 2004 budget allocations to such organisations, which total about NOK 5 billion, is shown in Figure 2.2. Norway also gives substantial funding to the UNEP.

### *Challenges – new assistance modalities*

It is now widely accepted that in order to make development happen and to make it sustainable, partner country governments must have ownership of and be fully committed to implementing their poverty reduction and development strategies, and that they must have as much control as possible over the available resources for implementing these strategies. Donors accepted this principle by adopting the Rome Declaration. It is Norway's view that all development assistance should be aligned with the national poverty reduction strategies or development plans of the respective countries in accordance with the principles of the Rome Declaration and with the MDGs.

It is widely recognised that budget support and sector programmes are the assistance modalities that best support partner country ownership and reduce their transaction costs. These forms of assistance give maximum flexibility for following up the strategy and budget priorities that donors and partners have agreed on as a basis for their co-operation. It is, however, also recognised that the effectiveness of these assistance modalities requires governments to be accountable; they must be able to report on results and exercise adequate fiduciary control over budget resources.

There is room for improvement in these fields in the poverty reduction strategies of many poor countries, and the Norwegian government participates actively in discussions on these strategies and their implementation in the various dialogue forums that exist between developing countries and other partners in development at the local, regional and global levels. A key challenge in this regard is to ensure that donors are constructive in assisting governments in improving the strategies while avoiding "taking over" the ownership of them.

Not everyone recognises the need to yield more control over the use of aid to partners. Norway has clearly stated that lasting results can only be achieved through partner-led co-operation, pooling of resources and harmonisation of donor procedures. Unlike some donors, Norway is not bound by legislation to carry out assistance on a project level. In donor countries where development assistance has been seen as a commercial instrument as well as a tool for development, governments have been reluctant to make changes that could upset this complementarity. This is not the case in Norway.

Some UN funds and specialised agencies have shown a willingness to adapt and participate in making important changes regarding the harmonisation of procedures.

*Improving the infrastructure. Road building in Tanzania.* Photo: William Campbell, CORBIS

Others have been accused of being very slow to adapt to the new ideas. The UN system previously appeared to be more preoccupied with initiatives, such as the UNDAF, to harmonise its own internal procedures than with the broader efforts among donors to harmonise their efforts and align their assistance with partners' strategies, systems and procedures. This has changed.

In connection with efforts to strengthen the UN operational development system by improving its overall coherence and effectiveness, the Norwegian Minister of International Development, on behalf of a group of like-minded donors (Sweden, Germany, UK, Netherlands, Switzerland, Denmark and Norway), presented a paper on UN reform to the Secretary-General UN in June 2004. The paper has been shared with relevant organisations within the UN, and made generally available to stakeholders in the UN development system. It emphasises that reform is paramount in order to enable the United Nations to efficiently and effectively support countries in developing their capacity to achieve the Millennium Development Goals. It focuses on three areas where reform is needed in order for the UN to carry out its tasks in the development field: improving the effectiveness of the UN at country level through increased harmonisation and PRS alignment; improving governance and policy-making in the UN development system in order to ensure effective delivery at the country level; and improving methods of financing of UN agencies. All relevant Norwegian embassies have been instructed to follow up the reform agenda together with like-minded partners and to report on the achievements made at country level.

Norway participates actively in the policy discussions of the International Financial Institutions (IFIs). In its white paper on development policy, *Fighting Poverty Together*, the Government advocates giving poor countries more say in these institutions, where decisions are made that have far-reaching consequences for them.

The IFIs have shown a clear interest in harmonisation, although their implementation still varies and needs to be improved. Through instruments like the Poverty Reduction Strategy Papers (PRSP) process, we should continue to build on new assistance modalities in a more co-ordinated way. Norway has pushed for more country-specific PRSPs, a stronger focus on good governance and closer co-operation between the UN and IFIs.

To support the new development policy paradigm, Norway is making changes in its own assistance portfolio wherever possible. Transition from projects to budget support and sector programmes takes time, however, and more than 50 per cent of government-to-government bilateral aid is still being rendered in the form of project support. The government intends to ensure that these new forms of assistance benefit as far as possible partner governments with good governance and sound poverty reduction strategies . The government will also continue its dialogue with other donors on this issue in all relevant forums to ensure as broad support for transition and reform as possible.

### *Challenges – strengthening development finance*

In its white paper on globalisation (Report No 19 (2002-2003) to the Storting), the Norwegian government announced that it would welcome creative proposals for how to increase funding for global public goods like the global environment. The condition for providing support is that the measures do not divert funds away from development assistance and the fight against poverty. The Storting (the Norwegian parliament) agreed and declared its willingness to consider financing mechanisms like carbon taxes. This position is also reflected in the white paper on development policy. However, as stated in the globalisation white paper, a shortage of mechanisms and facilities for financing public goods may not be the greatest obstacle to raising additional funding. Mobilising sufficient political support in OECD countries for the work that is already being done through existing international institutions and facilities may be just as big a challenge. The issue of global financing mechanisms is complicated, however, and requires more thorough technical and political discussions both on the need for financing and on the possibility of identifying or establishing new sources or mechanisms. On this basis the government will continue to participate constructively in the discussion on proposals for new global financing facilities that are robust and can attract sufficient international support.

Over the last 10 years several large funds have been established that focus on specific issues of great importance for development and the fight against poverty, especially as regards improving the health situation in poor tropical countries. While these new bodies supply additional funding and technical assistance in connection with their respective areas of focus, they also pose a challenge with regard to the new policies of alignment with national poverty strategies, joint budget support arrangements and participation in existing co-ordination and prioritisation mechanisms. This has implications for governments' and other donors' planning and the use of human resources in priority activities. The sustainability of disbursement modalities that depend on voluntary contributions is also becoming urgent. If such funds become dependent on grants from ODA sources to keep up their level of activity, their additionality will be undermined. Norway participates in some of these funds and we have a dialogue with them on critical financing and operational issues.

*Supportive environment/national examples*

Norwegian participation in joint financing arrangements is on the increase. For example, budget support and support to sector programmes accounted for 16 per cent of the total funds allocated to NORAD, the Norwegian Agency for Development Co-operation, in 2003. The corresponding percentages in 2001 and 2002 were 8 and 11 per cent, respectively. However, only a limited number of budgetary allocations are relevant for these kinds of aid modalities, and the percentages do not therefore fully reflect the real importance attached to these aid modalities in Norwegian development co-operation. Budget support and sector programme support thus accounted for around 25 per cent of the volume of the relevant budget allocations in 2003. Norway is also participating to an increasing extent in other joint financing arrangements, especially with the Netherlands and Sweden. This also includes the most advanced and newest aid modality – delegated co-operation, or "silent partnership". The next step is to explore the possibilities of greater complementarity in the support provided by the different donors to a particular country. Norway will continue to seek to facilitate such co-operation.

One example of alignment is the delegated co-operation IN Malawi, where Norway manages Sweden's support to the country as well as its own. The Norwegian embassy is the operative agent and Sweden acts as a silent partner in the sense that it does not burden the government of Malawi with its own meetings and requirements. Sweden does, however, maintain close contact with Norway on priorities, and actively supervises the way its funding is being used. This co-operation has recently been assessed and given very good marks. Similar partnerships are being considered for other Norwegian partner countries. Discussions are under way with Sweden to establish a delegated co-operation arrangement in Mali, with Sweden as lead donor. Mali has agreed to such an arrangement and an agreement between Sweden and Norway is expected to be signed before the end of 2004. Also with regard to specific sectors, Norway has agreed to or will establish similar arrangements with donors like the UK and Netherlands in Zambia and Malawi.

According to Norwegian development policy alignment with partner country priorities also applies to financing through NGOs and through private sector co-operation. Service-providing NGOs are required to align their activities with a country's national poverty reduction strategy and other high priority national and sectoral plans in order to be eligible for Norwegian funding.

Making the transition from donor-funded projects to participation in general harmonisation and alignment initiatives is an important part of the efforts to achieve the MDGs. Norway is co-operating with other donors and partner governments to find ways of reducing the administrative burden on partner governments.

An example of this is the "Harmonisation in Practice" programme in Zambia, which aims to increase the use of sector programmes and budget support and develop common procedures for reporting, planning and control that are adapted to Zambia's administrative procedures. Norway has participated actively in the programme from the start, together with six other bilateral donors. The programme has so far proved to be successful and 11 donors have now signed an MOU for the programme.

In Tanzania Norway is heading a group of donors who are planning to respond to the revision of Tanzania's national poverty reduction strategy with a Joint Assistance Strategy. The purpose is to align assistance more closely with the PRS.

One of the main factors that contribute to increased aid effectiveness is untied aid, and Norway has long advocated that OECD member states should untie their aid. Norway has untied its own assistance to a greater extent than that proposed in the OECD recommendation of 2001. For example, it has applied the decision to all developing countries, while the OECD recommendation is limited to the LDCs. Norway's free-standing technical co-operation is also largely untied. Tied food aid occupies a marginal place in Norwegian assistance and the Storting has decided to phase it out altogether by 2007.

Further untying of aid by OECD countries and improving general aid effectiveness require better procurement rules and practices. Norway is taking an active part in the untying process in the Working Party on Aid Effectiveness and Donor Practices and in the Joint Venture on Procurement.

Norway has also stopped using tied development loans as a form of assistance. The Norwegian developing country venture investment capital facility, NORFUND, extends equity and loan financing untied to companies in developing countries.[3] In addition, Norway has set up a separate, untied mixed credit scheme run by NORAD.

Norway is also seeking to reduce potential obstacles on the Norwegian side to enhance harmonisation and alignment. As from 2004 the aid administration has been re-organised in response to Norway's commitment to reviewing and amending donor country procedures in order to facilitate reform and co-operation at country level. As a result more authority and responsibility is being delegated to the embassies.

The Norwegian manual on bilateral development co-operation is currently being revised, with a view to simplifying rules and procedures. In this process due attention is being paid to the need for flexibility in order to adjust to country circumstances and, in the case of joint financing arrangements, also to other donors. Training courses are being adjusted where necessary to reflect the harmonisation/alignment agenda. Some courses are being conducted jointly by the Nordic Plus group.

## 2.2 Trade and subsidies

*Table 2.2 Figures for trade volumes, tariffs and subsidies*

| Indicators | 1990 | 1995 | 2000 | 2002 |
|---|---|---|---|---|
| Proportion of Norwegian total imports (by value and excluding arms and oil), admitted free of duties (per cent): | | | | |
| a) from all developing countries | 8.1 | 9.4 | 11.2 | 11.3 |
| b) from LDCs | 0.6 | 0.5 | 0.4 | 0.4 |
| Average tariffs imposed by Norway on imports from developing countries (per cent) of:[4] | | | | |
| a) agricultural products | n.a. | n.a. | n.a. | n.a. |
| b) textile products * | 5.2 (1993) | 7.4 (1997) | n.a. | 4.5 |
| c) clothing products ** | 17.8 (1993) | 17.1 (1997) | 9.5 | 4.3 |
| Agricultural support estimate for Norway: | | | | |
| a) as percentage of GDP | 3.2 | 2.2 | 1.5 | 1.5 |
| b) in volume (USD billion) | 3.8 | 3.3 | 2.5 | 2.9. |
| Proportion of total bilateral, sector-allocable ODA provided to help build (per cent): | | | | |
| a) trade policy and regulations capacity *** | n.a. | n.a. | 0.4 (2001) | n.a. |
| b) trade development capacity *** | n.a. | n.a. | 3.7 (2001) | n.a. |

Source: OECD, WTO, NUPI
* Figures available only for 1993, 1997 and 2002. Computed by NUPI.
** Figures available only for 1993, 1997, 2000 and 2002. Computed by NUPI.
*** Figures available only from 2001

[3] NORFUND is required to make at least 40 per cent of its investments in countries eligible for IDA loans from the World Bank, while at least 30 per cent of its investments should take place in least developed countries.

[4] Average tariffs are trade-weighted. The increase regarding textiles from 1993 to 1997 does not arise from increased tariffs per se, but is due to a gradual lifting of quotas and a corresponding increase in imports of high-tariff goods as well as to a relative increase in imports originating in developing countries subject to tariffs compared with imports from other trading partners exempted from tariffs.

### *Status and trends*

Norway has an open, export-oriented economy. Its per capita foreign trade is among the highest in the world. Norway is therefore highly dependent on the global economy. Norway's main trading partner is the European Union.

Norway pursues an active trade policy aimed at gaining access to important markets and securing non-discriminatory, predictable and transparent conditions for international trade. Membership of the World Trade Organisation is therefore of central importance to Norway. A strong, rules-based system is the best guarantee against unilateralism and protectionism, and provides stability, security, transparency, and predictability for traders. Norway firmly believes that all members stand to gain significantly from further trade policy negotiations aimed at strengthening the multilateral trading system and improving market access for goods and services. Economic growth and development in all nations, particularly in developing countries, depend on a strong and fair multilateral trading system. Norway is therefore strongly committed to the Doha Development Agenda (DDA).

Norway has, together with its EFTA partners, negotiated Free Trade Agreements with some developing countries. EFTA has now initiated negotiations with the SACU members (Botswana, Lesotho, Namibia, South Africa and Swaziland.)

Expanding trade opportunities for developing countries plays a central role in the formulation of Norwegian foreign and development policies. Norway will continue to promote improvements to the multilateral trading system and encourage greater integration of the developing countries, especially the LDCs, by means of improved market access, transitional arrangements, technical and financial support and other measures. Norway has also taken a number of unilateral steps to promote trade with developing countries by implementing improvements to its Generalised System of Preferences (GSP). In 1996 Norway abolished tariffs and quotas on all products from the LDCs with the exception of flour, grains and fodder, for which 0-tariffs on imports from LDCs were introduced in July 2002, without exception or transitional arrangements. Although a special safeguard mechanism remains in place, safeguard measures have never been imposed on these products. Imports from other developing countries were also given more favourable treatment in 1996. Norway abolished all textile quotas as from January 2001. Although the GSP scheme is quite generous, the actual utilisation of the scheme is rather low as regards LDCs. Imports from other developing countries are mostly of tropical products that are allowed duty free treatment. There are some imports of meat from Botswana and Namibia. The government has initiated a review of its GSP scheme with a view to improving developing countries' access to the Norwegian market.

### *Challenges*

Trade in agricultural products is a particularly sensitive issue for Norway. The country's agricultural production is mainly for domestic consumption, and less than 5 per cent of the total production is exported. Norway is committed to the agricultural reform process in the WTO. However, structural adjustment in terms of promoting large-scale production is hampered by natural conditions. There is also a balance between the speed and scope of the structural adjustment process and important non-trade concerns. At the same time a viable agricultural sector contributes significantly to a continued and sustained safeguarding of non-trade concerns.

Norwegian agriculture is characterised by small production units, a short growing season and difficult topographic and climatic conditions. Maintaining agricultural production is a means of addressing important non-trade concerns such as rural settlement, the environment and food security. Non-trade concerns are also addressed in the Doha mandate.

Many agricultural products imported to Norway are subject to no or very low tariffs. Because production conditions are unfavourable in Norway, only a few product groups are produced domestically. These products are generally not competitive in the international market, and are generally protected by high tariffs and supported through various mechanisms. Norway recognises that improved market access is a key element of the agricultural reform process, and also accepts that the Doha round will lead to substantial reductions in trade-distorting domestic support and set an end date for the elimination of export subsidies. This will also have consequences for Norway and Norwegian agricultural policies. These are key issues for most developing countries, including the least developed.

In recent years, Norway has facilitated market access for agricultural products from developing countries, in particular from the LDCs. Under its Generalised System of Preferences, Norway grants duty- and quota-free market access for all agricultural products from the LDCs. For other developing countries, and depending on the sensitivity of the products for Norwegian agriculture, tariff preferences ranging from 100 per cent to 10 per cent are granted for imports of all products except milk and dairy products, and live animals.

Despite the relatively high level of domestic support and tariff protection, the real impact of Norway's agricultural policy on poor countries is limited due to the small size of the Norwegian market and negligible exports[5]. From a coherence point of view this is still a challenge for our development policies.

High and increasing oil prices on the world market pose a major problem in international trade for least deve-

[5] Norwegian export subsidies benefit mainly one product - cheese.

loped countries with few national energy resources. This can severely limit their ability to allocate funds to economic and social development and to service debts. Ultimately it affects their ability to reach the MDGs. By late 2004 poor countries have been facing such a situation for some time. There is therefore a need for the international community to respond to this situation in collaboration with the countries concerned. At the same time high oil prices provide an incentive to develop cleaner and renewable energy and may thus in the long term lead to a cleaner environment and less dependency on imported fuel. Norway will actively participate in addressing the problem along both these lines.

### *Supportive environment/national examples*

*Fighting Poverty through Agriculture*, the plan of action for agriculture in Norwegian development policy, which has been published in 2004, recognises that providing formal market access is not enough to improve the integration of the poorest countries into the world economy and the multilateral trading system. It emphasises that supply capacity constraints must also be addressed. What precisely is needed in each case may vary, but areas that could be improved include legal protection of farmers (particularly women) through inclusive access to property and user rights, incentives for producers, measures to increase productivity, diversification of production and agribusiness development, and access to land and national markets. They also include measures to ensure adequate labelling and product quality to meet the health and safety requirements of rich countries' markets, workforce training, promoting better knowledge of marketing, and improving transport and communications infrastructure. It is also essential that the developing countries, particularly the least developed countries, are able to actively participate in international trade negotiations and promote their interests. (The Action Plan is further described in section 4.3). Norway will support its partner countries in this area.

Trade-related technical assistance and capacity building are also needed on a large scale. Norway was the first country to set up a separate WTO fund for voluntary financial contributions earmarked for trade-related technical assistance to LDCs. This has been followed by further initiatives, most recently the WTO's Doha Development Agenda Global Trust Fund. Norway was also among the founding members of the independent Advisory Centre on WTO Law, which provides training and legal assistance in WTO matters to developing countries, especially the least developed. In addition, Norway is one of the main contributors to trade-related technical assistance and capacity building under the auspices of UNCTAD and the ITC. Norway is also contributing to joint programmes such as the IF (Integrated Framework for Trade-related Technical Assistance to the LDCs) and the JITAP (Joint Integrated Technical Assistance Programme to Selected Least Developed and Other African Countries).

## 2.3 Debt

*Table 2.3 Debt*[6]

| Indicator | 1990 | 1995 | 2000 | 2002 |
|---|---|---|---|---|
| Debt forgiveness as a percentage of ODA | 0.0 | 3.3 | 0.0 | 2.2 |
| HIPC debt relief as a percentage of net ODA | n.a. | n.a. | 1.4 | 0.0 |
| Proportion of grants (% of total gross ODA) | 100 | 99 | 99 | 100 |

Source: OECD

### *Status and trends*

Norwegian development assistance is generally given in the form of grants. Norway is therefore also a small creditor in relation to its development partners. Norway's government-to-government claims against developing countries were around NOK 3.3 billion (approximately USD 470 million) in 2003. The debt that is owed to Norway is to a large degree caused by defaulted export credits.

In May 2004, more than five years after the first Norwegian Debt Relief Strategy was presented, which was in 1998, an updated strategy, the Plan of Action for Debt Relief for Development, was launched. By the end of 2003, Norway had cancelled NOK 1.6 billion of developing countries' debt to it. This was done through the Debt Relief Strategy Financing Facility, an innovative mechanism that permits cancellation without any corresponding budget allocation. Thus, it was additional to our ODA contributions. The facility has financial capacity for cancelling remaining debt up to approximately NOK 1.84 billion. All cancellations are effected within the overall HIPC framework.

[6] The figures in the table, supplied by the OECD, are misleading. ODA allocations from the Norwegian International Debt Relief Fund amount to NOK 3.5 billion since 1988. The HIPC TF has received over NOK 900 million. Norway has provided NOK 1.6 billion in bilateral debt relief through the Debt Relief Strategy Financing Facility since 1998. In Norway's view, it is important for debt relief to be as far a s possible additional to ODA. This is a fundamental principle of the HIPC Initiative and thus something that the donor countries are committed to. In Norway's case, this is done by not charging bilateral debt relief against the development assistance budget. Norwegian bilateral debt relief is therefore not ODA eligible, precisely because it is additional.

Norway's contribution to international debt relief operations, the other main pillar of the Debt Relief Strategy, has also been a very important debt policy instrument for us. This contribution has been financed from the development assistance budget through the Norwegian Fund for International Debt Relief Operations. The possibility of using budget funds in a flexible way has enabled Norway to maintain a high profile in the debt policy field, and to play a proactive role in important individual cases. Since it was established in 1988, total disbursements from the Debt Relief Fund have amounted to more than NOK 3.2 billion. Since the Debt Relief Strategy was launched in 1998, Norway has contributed NOK 915 million to the HIPC Trust Fund alone.

The Plan of Action for Debt Relief for Development also promotes development motivated SWAP operations whereby a debtor country's debt is converted into an obligation to use a specific amount in local currency for specifically agreed measures, for instance in the health, education or environmental sector.

The new action plan builds on its predecessor. Most of the measures in the original Debt Relief Strategy are as valid and relevant today as they were six years ago. In this respect the action plan is a consolidation of a strategy that has proven its value.

Under the new action plan Norway will:

- Provide political and financial support to the HIPC Initiative, and continue to seek to ensure full financing for and further improvements to this scheme.
- Supplement HIPC debt relief with unilateral measures under which, under certain conditions, we cancel 100 per cent of HIPC countries' debt to Norway, and seek to ensure that as many creditor countries as possible do the same.
- Actively support and influence the work of the Paris Club, which is the main arena as regards bilateral debt for practical implementation of the HIPC Initiative and for debt negotiations with other countries.
- Work to ensure that all debt relief benefits debtor countries and not other creditors.
- Support international debt operations, especially the World Bank Fifth Dimension and Sixth Dimension facilities (the IDA Debt Reduction Facilities) as an important supplement to bilateral debt cancellation.
- Work to promote more systematic multilateral cooperation on improving debt management in the poorest countries, for example by using development assistance funds, in order to help prevent new debt problems.

### *Challenges*

Much of the debt relief agenda is still unfinished. Several poor countries have yet to qualify for the HIPC Initiative. Of the 27 countries that are qualified, 14 have passed the completion point. Countries eligible for HIPC that have failed to reach the decision point are generally struggling with serious internal problems. Of the HIPC countries on which Norway has claims, only three – Tanzania, Ghana, Senegal and Benin – have put HIPC behind them and finally had their bilateral debt to Norway cancelled.


*The HIPC initiative has eased the debt burden of many developing countries* Photo: Roger Wood, CORBIS

Out of the Debt Relief Strategy financing facility of NOK 3.17 billion, NOK 1.84 billion still remains. It is a political goal to ensure that this facility is fully utilised and in such a way that debt relief leads to genuine poverty reduction. This is why the action plan is called *Debt Relief for Development*.

However, in the light of our experience so far and the new challenges that have emerged in the debt field it is also necessary to update and further develop the range of instruments. The expansion of the Debt Relief Strategy can be briefly summarised as follows.

Under the action plan Norway will:

- Help to pave the way for HIPC treatment for post-conflict countries by providing grants for co-ordinated operations to clear the arrears of individual countries to the International Financial Institutions.
- Advocate measures to ensure that post-conflict countries that are candidates for HIPC treatment do not have to spend scarce resources on servicing external debt, refrain from claiming current interest and instalments from such countries, and consider implementing 100 per cent debt cancellation as part of the HIPC treatment of these countries.
- Implement multilaterally co-ordinated debt swaps with Pakistan and Vietnam, and conduct negotiations on a multilaterally co-ordinated debt swap with Ecuador.
- More generally, work to ensure that middle-income countries with structural payment problems also have sufficiently comprehensive debt agreements, if necessary with debt reduction, so that frequent, repeated debt negotiations are rendered unnecessary.
- Work to ensure that the Paris Club adopts a more flexible attitude to moving cut-off dates (which limits the volume of debt that can be renegotiated) in such a way as to take into account countries' solvency and creditworthiness.
- Contribute to the debate on and implementation of the framework for Debt Sustainability in Low-Income Countries proposed by the IMF/World Bank.
- Norway will support the "Multi-stakeholder Dialogue on Sovereign Debt for Sustained Development", organised by DESA in co-operation with UNCTAD/DMFAS.

### *Supportive environment/national examples*

The Norwegian Debt Relief Strategy Financing Facility originally covered a group of 19 indebted low-income and middle-income countries: Angola, Côte d'Ivoire, Ghana, Guinea, Somalia, Tanzania, Vietnam, Benin, The Gambia, Senegal, Sierra Leone, Zaire/DR Congo, Liberia, Sudan, Burma, Algeria, Ecuador, Jamaica and Peru.

## 2.4 The environment

### *Status and trends*

A more equitable distribution of the use of natural resources is necessary if poor countries are to reach a standard of living on a par with that of the rich countries. Recognition of the close links between development, environment and poverty reduction was one of the factors underlying the recommendations of the World Commission on Environment and Development to the Rio conference in 1992. The World Summit on Sustainable Development in Johannesburg was an important step further in recognising these important links. One of the Norwegian government's priorities is therefore to support the efforts of the United Nations to promote sustainable development.

None of the targets under MDG8 deal directly with the rich countries' contribution to improving the environment as part of their efforts to fight poverty in developing countries. MDG7, however, is about sustainable development, and it has therefore been decided to include this in the present report. The indicators for this goal are listed in Table 2.4, with figures for the period 1990-2003/04 to show recent trends.

In Norway *productive forests* were last surveyed in 1998-2000. No significant change was found in the area of productive forest, but there has been a steady increase in productive forest biomass, from about 500 million m$^3$ in 1984 to 710 million m$^3$ in 2001. Unproductive forest land, part of which would be registered by FAO as productive forest, comprised 2.4 million hectares in 1990 and 2.3 million in 2000. Mountain forests are expanding, as a result of reduced grazing pressure and a warmer climate. This growth is not included in the above figures and certainly comprises another 2 million hectares, possibly much more.

The total land area of Norway is 385,199 km$^2$. *The total land area protected* to maintain biodiversity has gone up by 43 per cent, from 53,345 km$^2$ in 1990 to 76,350 km$^2$ in

*Table 2.4 Environmental indicators for Norway*

| Indicator | 1990 | 1995 | 2000 | Latest year |
|---|---|---|---|---|
| Land area covered by forest (% of total) | 22.9 | 22.9 | 22.9 | |
| Protected area (% of surface) | 13.8 | 14.5 | 15.8 | 19.8 (2004) |
| Energy use (kg oil equivalent) per USD 1000 (PPP) GDP | 0.22 | 0.22 | 0.20 | |
| Energy use (pj) | 843 | 959 | 1082 | 1044 (2003) |
| $CO_2$ (tons/capita) | 8.18 | 8.58 | 9.12 | 9.38 (2003) |
| Import of CFCs (ODP tons) | 722 | 3.3 | 1.78 | 0.014 (2003) |

Source: OECD, Norwegian Ministry of the Environment

*Bushfires on the savanna* Photo: Peter Johnson, CORBIS

2004, which means that about one fifth of the land area of Norway is protected today. This is the result of a deliberate policy to protect landscapes and ecosystems as well as the indigenous flora and fauna. While protection was previously concentrated mainly on remote highland areas, recent years have seen an increase in the protection of lowland and coastal areas, where there is often greater biodiversity than in mountain areas.

*Energy use.* In 1990, 121.8 TWh of electricity was produced in Norway, in 1995 123 TWh and in 2000 143 TWh. Almost all the electricity in Norway is supplied by hydropower. Hence the increase in electricity use has up to now not resulted in any significant increase in emissions to the environment. There are no conversion losses to account for in the case of hydropower. There are, however, transmission losses, which, together with the energy used for transporting exported oil and gas and other losses, are included in the figures for gross energy use (given in petajoules). As the figures in kg oil equivalent/GDP (PPP) supplied here by the OECD for comparison purposes will depend on the conversion factor, effective exchange rates and price equivalents used, we also supply the primary data.[7]

Norway supports the policy recommendations from the International Conference for Renewable Energies in Bonn 2004, which noted that subsidies – currently estimated to be over USD 200 billion annually – and external costs, constitute hazards to health, safety, security and the environment. A sustainable environment will require substantial reductions in subsidies and the internalisation of external costs, and the use of renewable energies must be promoted. However, most countries lack the enabling policy framework to promote such technologies. The Norwegian government will assist developing countries to establish such frameworks and will continue to contribute funding for developing, adapting and implementing technologies for renewable energies. Currently Norwegian assistance to the WEHAB sectors (excluding health) amounts to around NOK 900 million annually. Together with several other countries, Norway has also supported the German SEED initiative which supports and rewards entrepreneurship regarding renewable energy in developing countries.

*$CO_2$ emissions.* To ensure comparability with global data, the figures given in the table do not represent total $CO_2$ *equivalents* (including emissions of $CH_4$, HCFC, $SF_6$, etc.). If these were included, the per capita emissions of $CO_2$ equivalents would be 12.3 tons in 1990, 11.9 in 1995, 12.5 in 2000 and 12.3 in 2003.

Norway produces large amounts of oil and natural gas on its continental shelf. The country is the world's second or third largest net exporter of oil and the fourth

[7] Norway's GNP was NOK 66,055 million in 1990, NOK 92,875 million in 1995, NOK 146,908 million in 2000 and NOK 156,369 million in 2003.

largest exporter of natural gas. Most of the oil is therefore shipped overseas and the gas is sold to EU countries, where it replaces coal and oil which often have a higher sulphur content. As emissions from production on the continental shelf are attributed to Norway, great efforts are being made to reduce them.

*CFC imports.* Imports reflect use, but not emissions. Norway does not produce or export CFCs and has a programme for dealing with old CFC-containing installations.

### Challenges

There have been a number of positive environmental developments in industrialised countries in recent decades. Environmental pressure has been decoupled from economic growth in many areas, for example as regards emissions of acidifying substances to air and emissions of certain hazardous substances. In other important areas there has been a more negative trend, especially in those related to global environmental problems. Norway's contribution to these problems is being systematically reduced.

The MDGs are intended both to safeguard the long-term basis for utilisation of natural resources and to ensure that development in one country does not impede poverty reduction and development efforts in another. Norwegian emissions both per capita and in relation to GDP are on a similar level to that of other European countries[8].

*Climate change* is the greatest global environmental problem we are facing. In Norway, $CO_2$ emissions rose by about 21 per cent and aggregate greenhouse gas emissions by about 3 per cent from 1987 to 2002. However, aggregate Norwegian greenhouse gas emissions per unit of GDP were reduced by about 30 per cent in the same period. To meet its Kyoto commitment, which is not to increase emissions of greenhouse gases by more than 1 per cent compared with the base year 1990 in the commitment period 2008-2012, Norway must reduce its emissions by 8-9 million tons by 2010. With access to international emissions trading schemes, Norwegian enterprises will have incentives to carry out measures in other countries when this is less costly than reducing emissions in Norway.

Air pollution from national sources has been substantially reduced. Lead emissions have been reduced by over 97 per cent since 1990 and emissions of dioxins by 74 per cent. Sulphur emissions have been more than halved since 1990, while cadmium, chromium and mercury emissions have been approximately halved in the same period. Although certain other emissions have been substantially reduced in relation to GDP, emissions of PAHs, $NO_x$, trophospheric ozone precursors and particles have not shown any significant reductions in absolute terms in the same period. Strong measures are required to achieve the targets set by the Convention on Long-range Transboundary Air Pollution for the reduction of $NO_x$ and VOC emissions. New technology is being introduced to reach these targets, and Norway will continue to use taxes, charges and licences at the national level for this purpose. The largest municipality, Oslo, has its own sustainability programme, which includes measures to increase the use of public transport. Several other local authorities have similar programmes. However, such emissions generally only have regional effects, not global ones, which means that they affect developing countries to a lesser extent.

Our efforts to create strong national policies on watercourses, coastal management, waste management and recovery, air pollution prevention and control, land use and protection of the cultural heritage are well under way. Even in cases where the main cause of environmental degradation, for example acid precipitation, is long-range pollution from abroad, we have pursued an active policy of reducing our own emissions.

Agricultural runoff is subject to stringent requirements, but efforts will be made to reduce discharges to water further. Discharges of nutrients from all sectors except aquaculture have declined in the last 15 years. In response to the substantial problems we have experienced with infection and genetic contamination of wild salmon in recent decades, 37 rivers and the fjords they flow into now have strict restrictions on salmon farming.

Waste generation has been decoupled from general economic growth. Due to landfill and incineration charges and deposit-return systems for bottles and cans, cars, electric goods etc., 70 per cent of collected waste was recovered in 2002. Stricter regulations for landfills and incineration of waste and a ban on landfilling of wet organic waste were introduced in 2002 and 2003. This will lead to cleaner energy generation and a considerable reduction in climate impact through reductions in methane emissions. Several local authorities have action plans for green public procurement and waste reduction.

Widespread losses of *biological diversity* are occurring throughout the world. There are various reasons for this, including deforestation, overexploitation of species, acidification, emissions of hazardous substances, changes in land use and the introduction of alien species. In 1998, the Norwegian Red List of threatened species included about one in every five of the 14 600 species that had been investigated in Norway. The Red List includes everything from species that are already extinct or in danger of becoming extinct in Norway to those that need to be monitored because their populations are or have been showing a negative trend. The government aims to stop the loss of biodiversity by 2010. To this end protected areas have been substantial-

[8] More statistics may be found at: http://www.environment.no

ly expanded and further measures, especially in marine areas, are planned. Viable populations of large predators will be safeguarded and policies for alien species and genetically modified organisms will continue to be restrictive.

Norway has substantially scaled down subsidies benefiting *the fisheries industry*. In 2003 there were some transport subsidies left, along with some subsidies to long-line baiting fisheries and a decommissioning scheme for vessels, amounting to a total of NOK 70 million. This is less than 1 per cent of the first hand value of landed fish in the same year, which was NOK 8.9 billion. Very strict quota based stock management systems have traditionally been applied to all fish species to avoid contributing to the depletion of marine resources.

A number of *chemicals* can accumulate in food chains, and are a serious threat to biodiversity, food supplies and the health of future generations. The most dangerous of these are persistent organic pollutants (POPs) such as PCBs and dioxins, which can cause damage even at low concentrations, but there is also substantial concern about mercury and some other non-organic contaminants. National emissions of these have been substantially reduced and some substances that are not yet banned now have a tax levied on them to encourage phasing out. Other chemicals may be added to the list of emissions to be substantially reduced by 2010 on the basis of the threat they pose to the environment.

### *Supportive environment/national examples*

Through the Agreement on the European Economic Area (EEA Agreement), Norway is co-operating with the EU and EFTA states on the development and national implementation of EU environmental legislation.

*Research* on development-related issues, environmentally friendly technology and in environmental science as well as the integration of a global perspective into all research are essential if we are to break the links between economic development and environmental pressure. International co-operation on research and development will make it easier to achieve good results in areas where expertise and resources can be shared between several countries. Norway is contributing both financial and human resources to various international research programmes.

It is important to make use of clearly formulated, long-term environmental policy instruments, so that companies will find it profitable to develop and use environmentally sound technology. There is an urgent need to understand and document current environmental trends to provide a basis for determining what action to take and how society needs to adapt.

Environmental taxes, emissions trading, deposit and return schemes and subsidies for environmentally friendly production and consumption are all examples of *economic instruments* that are being used in Norway. Economic instruments ensure that the price mechanism is used to limit pressure on natural resources and the environment, and that the polluter-pays principle is applied in practice. Companies and households will reduce their use of products on which environmental taxes are introduced because it is in their own financial interest to do so. Emissions trading schemes are being introduced in a number of countries, for example to reduce greenhouse gas emissions. Norway has been in the forefront in developing an emissions trading system as a climate policy tool. The government is currently in the process of introducing an emissions trading system for the period 2005-2007. The aim is to link this system to the emissions trading system being introduced by the European Union for the same period. Under such schemes, action to reduce pollution is taken where the greatest environmental improvement can be achieved at the lowest cost.

In accordance with the recommendations from the Rio Summit in 1992 (United Nations Conference on Environment and Development), the government in 2003 launched a “National Agenda 21” entitled “National Action Plan for Sustainable Development”, as a follow up to both the Rio and the Johannesburg commitments. This is a broad-based action plan to promote sustainable development in Norway and beyond. It deals with a wide range of relevant domestic and international topics, including development and poverty reduction. Indicators for quantifying progress in promoting sustainable development are being established as a follow up to the plan.

Administrative instruments include direct regulation and agreements between the authorities and branches of industry or individual companies. Under Norwegian legislation, emission ceilings may be imposed to restrict the quantities of pollutants a company releases to air, water or the ground. The Pollution Control Act and the Planning and Building Act regulate matters of crucial importance for the use of natural resources and the environment. The local government administration plays a central role in implementing administrative instruments, for example to deal with eutrophication, oil pollution, and waste and waste recovery.

Governments are consumers, producers, owners and managers of property, and many of their activities, like procurement, energy use, transport and waste generation, make an impact on the environment. The Norwegian government’s goal is for all its agencies to conduct their operations in a more environmentally friendly way. All government agencies must integrate environmental considerations into their activities and introduce environmental management systems as part of their overall management system by the end of 2005. A new Public Procurement Act entered into force on 1 July 2001, which requires agencies to take into account the lifecycle costs and environmental impacts of any goods or services they are planning to purchase.

*Environmental impact assessments* are being used for obtaining information on the links between policy areas and the impacts of policy measures and major projects, and for devising a coherent policy for sustainable development. Environmental impact assessment is also an important tool for efforts to put the precautionary principle into practice and for obtaining the environmental information needed to ensure that the general public can take part in and influence decision-making processes.

Access to *environmental information* is also necessary in order for individuals to take environmental considerations into account. Norway's new Environmental Information Act requires commercial actors to provide information on their activities and products. Public agencies already have a duty to provide extensive information and ensure public participation.

## 2.5 Targets related to productive work for youth, to affordable drugs and to new technologies

### *Productive work for youth*

Unemployment is high in many developing countries and particularly high among young people who are entering the job market for the first time. Creating job opportunities in general and for youth in particular is basically the responsibility of governments in the countries where they live. One of the main priorities in this field for many governments is to create an enabling environment for private sector development that will eventually result in job opportunities. This entails meeting the whole range of good governance challenges and pursuing sound macroeconomic and industrial policies that are conducive to capital formation, trade and investment. Another priority area for governments is to upgrade the national educational system in order to offer better, more relevant skills to young people.

While such efforts are being initiated and scaled up there is also a need for funds to ease the situation for the unemployed.

Norwegian development policy addresses these problems. More than 23 per cent of Norwegian bilateral development assistance funds was channelled to good governance activities in 2002.

Funding for developing better educational systems accounted for about 15 per cent of Norwegian bilateral assistance in 2002. This also comprised support for vocational training schemes, which is important to improve job opportunities for young people. The government's aim is to increase funding for education to 15 per cent of total development assistance.

Private sector development is also high on the Norwegian government's agenda. The investment capital fund, NORFUND, co-operates with similar institutions worldwide on taking advantage of investment opportunities in developing countries.

In co-operation with the Institute for Liberty and Democracy in Peru, the World Bank and others, Norway is also helping to strengthen frameworks for entrepreneurs in poor countries, for instance by assisting in the broadening of property legislation so that poor entrepreneurs get access to legal protection and formal credit. This in turn can help generate employment. In 2002 more than 8 per cent of Norwegian bilateral development assistance funds were used for private sector development purposes.

Norway is active through organisations like the ILO and UNICEF (which receive substantial funding from Norway) in the efforts to enforce labour standards in developing countries, in particular protecting children and young people from being exploited by ruthless employers. In this regard it is important to ensure that children have access to education that will help them get decent jobs. The white paper *Fighting Poverty Together* emphasises that Norway is in dialogue with partner countries on the human rights situation of children and young people and considers this to be an important and integral part of the general dialogue on development policy.

### *Affordable drugs*

Access to affordable drugs has high priority in Norway's foreign and development policies. This priority has been followed up in various ways and in various forums over the last 10 years. This has included a wide range of measures, ranging from organising brainstorming/consensus-building sessions for key actors to policy initiatives in the most appropriate multilateral organisations and funds, such as WHO, UNAIDS, GFATM and WTO/TRIPS.

Norway also provides considerable funding for the work of these and other organisations that directly support developing country programmes to improve access to essential medicines. In addition we have taken initiatives at the national level as part of our efforts to implement the policy coherence commitments as regards national policies in line with the OECD/DAC framework.

Access to affordable medicines will not by itself ensure the achievement of the human right to the highest attainable standard of health, but it is an important element in this broader endeavour, which includes a holistic approach to the development of national health systems. The following events and points are of particular relevance.

Norway played an important role in the negotiations leading up to the 2001 Doha Declaration on the TRIPS Agreement and public health.

In April 2001 Norway, together with WHO/WTO, facilitated a workshop in Norway to obtain a better common understanding of the importance of differential pricing

*Relevant skills are crucial for access to the labour market* Photo: Gina Glover, CORBIS

of medicines. All major stakeholders participated. In June 2002, the Norwegian Ministry of Foreign Affairs and the Quaker United Nations Office in Geneva hosted a workshop on how to enable developing countries with insufficient manufacturing capacities to import patented medicines on the basis of compulsory licences.

The WTO General Council took a decision allowing for exports in such cases on 30 August 2003. Norway was the second country (after Canada) to implement the decision in national legislation, and the new provisions on the use of compulsory licences in accordance with this decision entered into force on 1 June 2004. Norway has published all the relevant documents in English, among other things to facilitate developing countries' efforts to amend their own legislation to take account of the decision.

In the GFATM Norway has, through its membership in one of the Board's constituencies, and by co-chairing the task force charged with designing the fund's procurement policies, advocated that developing countries should be able to take advantage of the flexibility provided for by the Doha Declaration on TRIPS and public health when using grants from the fund to procure drugs prequalified by the WHO. Norway's contribution to the GFATM is one of the ways we help to ensure access to affordable essential medicines for people affected by HIV/AIDS, tuberculosis and malaria in developing countries.

In the WHO, Norway has provided funding and expertise for the building up in 2001 of the UN procurement, quality and sourcing project to facilitate access by developing countries to safe, effective and affordable drugs for the treatment of HIV/AIDS, tuberculosis and malaria.

More recently, Norway took the initiative for a resolution in the WHO Health Assembly (WHA57) expressing the support of all Member States for the organisation's work to improve developing countries' access to affordable HIV/AIDS medicines at the best price, including the work on prequalifying both generic and originator drugs.

As far as funding is concerned, Norway is the second largest bilateral contributor to GAVI, the Global Alliance for Vaccines and Immunisation, which aims at giving children in poor countries better access to vital vaccines. Norway has also contributed to GAVI's efforts to overcome systemic barriers to access in national health systems.

Furthermore, Norway is the largest bilateral contributor to the WHO/World Bank/UNDP/UNICEF's research programme on neglected tropical diseases (TDR).[9]

Norway also participates actively in the EU programme European and Developing Countries Clinical Trial Partnership,[10] which requires participants to undertake research on the poverty and killer diseases and which involves co-operation with and capacity building in research institutions in developing countries.

Norway also supports the International AIDS Vaccine Initiative, IAVI,[11] which is engaged in developing an effective vaccine against AIDS and making it available to developing countries, and the International Microbicide Initiative, IPM, which aims at developing women-controlled prevention methods against HIV and other sexually transmitted infections.

At a more general level, Norway supports the efforts of the Global Forum for Health Research in efforts to correct the 10/90 gap in health research. This refers to the fact that only 10 per cent of the world's resources for medical and health research goes to alleviate 90 per cent of the world's disease burden, which consists mainly of the poverty diseases. In Norway the situation is even worse as only about 5 per cent of relevant Norwegian research funding is allocated for this purpose. Norway has therefore recently established a research programme to help reverse this trend. Sponsorship of the programme is being sought from both public and private sources. The 10/90 gap has been identified partly because it is possible to measure fairly accurately both the problem and the means of solving it. It illustrates, however, the more general problem of the lack of large-scale research on topics that are critically important to the developing world.

### *New technologies*

The revolution in information and communication technology has caused many parts of the world to move on from the post-industrial to the information society. This has opened up new possibilities of exchanging knowledge and improving access to education and training programmes and new opportunities for creativity and participating in intercultural dialogue. The economy has become global and knowledge-based. Access to technological infrastructure and a well-qualified work force are crucial factors in the international competition for investors and investment.

The poorest countries have been unable to participate in this development: to a large degree they are on the wrong side of the digital divide. In 2002 about 36 per cent of the population in industrial countries had access to a computer, 33 per cent had access to the Internet and land-line and mobile phones had a coverage of 103 per cent. In sub-Saharan Africa only 1.2 per cent had access to a computer, 1.1 per cent were Internet users and about 5 per cent had access to a telephone. Norway's partner countries in the region score below these averages. Even though the growth rates for these indicators are high in the region, the low access to these key technologies is a major disadvantage for the affected countries.

*ICT is a driving force in economic development*
Photo: Louise Gubb, CORBIS

MDG8 therefore includes an obligation for rich countries to contribute to better access to the benefits of the ICT revolution for poor countries and poor population groups. In this respect efforts should be made to expand this technology to effectively meet challenges in private sector development, education, health and governance in developing countries.

The directly development-promoting effects of ICT need to be identified more clearly, and the UN ICT Task Force is working on this. In addition UNDP will table a report in the course of 2004 based on experience from seven countries in Asia, which is expected to demonstrate a clear connection between the targeted use of ICT and improvements in health and education development.

The World Summit on the Information Society (WSIS) in 2003 was the first of its kind, and challenges to development were among the main topics of discussion. About 60 heads of state and government and a number of ministers attended, along with representatives of the private sector and civil society. The Norwegian government fully endorses the conclusions from the summit and will also emphasise that respect for freedom of speech and other human rights are important preconditions for development in the field of ICT as well as in other areas. The second phase of the summit is to be held in Tunisia in 2005.

There is a considerable need for investment in ICT, and the private sector must play a major role in this field, in developing as well as developed countries. The Norwegian government will, however, emphasise the need for governments of developing countries to clarify in their

[9] http://www.who.int/tdr/diseases/default.htm
[10] http://www.edctp.org
[11] http://www.iavi.org

poverty reduction strategies how ICT can help to meet the fundamental development challenges, how they can contribute to this and what resources are needed to implement the plans.

The Norwegian government places special emphasis on the potential synergies that partnerships between the private and the public sector can bring about. Partnerships between private and public actors is at the centre of Norway's strategy vis–à-vis developing countries in this field, in line with for instance the NORAD/Telenor/Grameen Bank's Grameen Phone initiative. Grameen Phone is today the second largest taxpayer in Bangladesh. Since its establishment in 1997, the company has paid USD 213 million in taxes and charges to the state of Bangladesh. In 2002 the contribution exceeded USD 83 million, and in the same year the company had a surplus of about USD 40 million. The Norwegian investment fund NORFUND plays an important role in mobilising capital for such initiatives.

Another important priority, which was emphasised at the World Summit on Sustainable Development, is to facilitate the introduction of new technology that will have less impact on the climate and enable the development of new and renewable energy sources at a viable cost. Energy use is predicted to rise by about 60 per cent by 2020, and developing countries will soon overtake OECD countries in terms of energy consumption. Nevertheless about 2 billion people in the world are without access to electricity or other commercial energy. About a third of the world's population, mainly living in rural areas, have access only to traditional energy supplies like firewood. Less than 10 per cent of the population of sub-Saharan Africa have access to commercial energy or electricity. Given that affordable energy is an important factor in the fight against poverty, it is vital to develop different systems to transport energy to users in the poorest regions.

Norwegian development assistance has generally played an important role in the development of the renewable power industry and in capacity building in this sector in our partner countries. In addition NORFUND has become an important investor in renewable energy projects in developing countries, by brokering commercially viable projects and bringing in risk capital from several sources. NORFUND has established a joint venture with one of Norway's leading power developers, Statkraft, to step up such efforts.

The Gas Flaring Initiative, which is led by the World Bank Group in co-operation with the Norwegian government, supports the efforts of the petroleum industry and national governments to reduce gas flaring from petroleum fields in developing countries. Measures include improving the legal and regulatory framework for investment in flaring reductions, improving international and domestic market access for gas, providing technical assistance for developing markets for associated gas, disseminating information, including information on international best practices, and promoting small-scale use of gas (including LPG schemes) in areas where gas is now flared. Public-private partnerships, for example with petroleum companies, are encouraged.

The Norwegian Petroleum Directorate assists a number of Norway's partner countries[12] both in the use of advanced technology for the petroleum industry and regarding institution building tied to resource management and security. In co-operation with the International Programme for Petroleum Management and Administration (PETRAD), the directorate has also been offering advanced training courses for medium- and high-level managers in ministries and petroleum companies in developing countries since 1990. The courses and seminars cover a broad range of subjects relating to petroleum policy and management. By the end of 2003 as many as 8745 participants from 88 countries had attended the courses.

Between 1998 and 2004 seven "Cleaner Production" (CP) programmes have been carried out in Zambia as part of the *Industrial Pollution Prevention Programme.* Norway has contributed a total of USD 1.8 million to the programmes. A Norwegian consultant and facilitator has co-operated with local partners in the programme. The programme has generated considerable savings and improvements regarding the environment and health. So far 57 Zambian companies have reported aggregate yearly savings of more than USD 29 million. On average the investments have repaid themselves in less than four months. Capacity building, including the training of more than 15 CP experts has been part of the programmes. The challenge now is to establish a permanent CP Centre in Zambia to follow up and help sustain the economic and environmental improvements.

[12] Tanzania, Sri Lanka, East Timor, Mocambique, Vietnam, Mali, Angola, Namibia, Nigeria and the Seychelles have been among the countries benefitting from this co-operation, along with member countries of the Coordinating Committee for Geoscience Programmes in East and Southeast Asia.

*Investment in transport is crucial for development*

Photo: Colin Garratt, CORBIS

# 3 OTHER EFFORTS VIS-A-VIS DEVELOPING COUNTRIES

*Table 3.1 Other non-official resource flows*

| Indicator | 1990 | 1995 | 2000 | 2002 |
|---|---|---|---|---|
| Volume of remittances by migrants (USD million)* | n.a. | n.a. | n.a. | n.a. |
| Foreign Direct Investment to developing countries**: | | | | |
| a) as volume (USD million) | 28 | 209 | 282 | -48 |
| b) as a percentage of GNI | 0.03 | 0.15 | 0.18 | -0.03 |
| Grants by private voluntary organisations/NGOs/ funds as a percentage of GNI | 0.13 | 0.06 | 0.11 | 0.06 |

Source: OECD, NORAD
* Reliable figures for remittances from Norway are not available
** Calculated as three-year averages, for 1989-91, 1994-96, 1997-99 and 2000-02

## 3.1 Migrants' remittances

Immigrants from developing countries to the OECD area contribute to development by sending money back to the countries they came from. Some of this money is transferred via the normal banking system, some by courier and some through informal banking systems like the Hawala system.

The total volume of remittances is substantial. The World Bank has estimated the figure for 2001 at USD 72 billion, which is about 40 per cent more than the volume of development assistance for that year. Remittances are used for investment in housing, business and for other purposes and thus constitute an important contribution to the development of these countries.

In 2001 the IMF ranked Norway as the 20th largest source of remittances, at USD 0.7 billion. Most remittances from Norway go to European countries, and most of those to developing countries go to Pakistan, Sri Lanka and Somalia. The large Norwegian commercial fleet of freighters and cruise ships is also an important source of income for some countries and communities, notably the Philippines, which is where a large proportion of the crews on Norwegian vessels come from.

Exact figures for remittances are difficult to come by, partly because there is a limit for reporting overseas transactions to Norges Bank (the Norwegian central bank), and many of the transactions effected are just below the specified amount.

Remittance transfers to developing countries are currently being discussed in international forums with a view to finding ways to facilitate them without making it easier to transfer illegal money or money for illegal purposes. Norway participates in these discussions, which also focus on how to increase the development impact of remittances.

In some cases remittances have been known to originate from crime and are sent abroad for money laundering. Some of this money is also being used to finance conflict and crime in the countries of destination. Økokrim, the Norwegian National Authority for the Investigation and Prosecution of Economic and Environmental Crime, roughly estimates that as much as NOK 100 million is sent out of Norway unofficially every year, although not necessarily mainly for illegal purposes[13]. As such money is also used to invest in enterprises in the informal economy in recipient countries that do not have a well functioning banking system, stricter control of unofficial transfers may have made such investments more difficult. Somalia is a case in point that is relevant for Norway.

## 3.2 Foreign Direct Investment

Poor developing countries need investment in order to fight poverty. Foreign Direct Investment (FDI) generally represents more stable and long-term capital than

[13] See chapter 4.2 for more on Norway's efforts to combat corruption and money laundering.

portfolio investment. It is often also regarded as a more attractive form of capital than loans, because the investor generally assumes a larger part of the risk and because it is often accompanied by technical personnel and training schemes for local personnel. Generally, FDI injects financial resources into the host economy and generates employment.

Poor countries receive a relatively modest share of the total global volume of FDI. According to UNCTAD, about 30 per cent of total FDI in 2003 went to developing countries, while only 2.7 per cent was invested in the 49 least developed countries. Transnational corporations (TNCs) in the developed countries are the main driving forces of global FDI flows, but TNCs in the developing countries are becoming increasingly important, accounting for one tenth of global outward FDI stock. There seems to be a tendency for TNCs from the developing world to invest increasingly in other developing countries.

In many countries capital flight is a problem as well as lack of investment. The investment criteria applied by domestic capital owners are, however, by and large the same as those applied by foreign investors. Capital goes to the areas that give the best yield, taking both political and commercial risks into consideration. If the risk is too great for foreigners, it is often too great for domestic investors as well.

Africa has relatively good prospects of attracting more FDI, due to the continent's rich natural resources, mainly in connection with extractive industries, and its potential big markets. Many governments are working steadily to improve the investment environment. Morocco, Angola, Chad, Equatorial Guinea, Nigeria and South Africa all received substantial FDI in 2003. FDI to Sudan in 2003 amounted to USD 1.3 billion.

Direct investments abroad by Norwegian companies have increased from about NOK 75 billion in 1990 to more than NOK 471 billion in 2001. The Commitment to Development Index (CDI) from the Center for Global Development[14] ranks Norway's policies to encourage FDI as ninth and above average among OECD countries, while UNCTAD's performance index ranks Norway lower. Investments by Norwegian companies in poor developing countries are modest. Between 1999 and 2001 about 1.2 per cent of total annual Norwegian FDI went to African countries[15]. This coincides closely with IMF figures for the same period, that on average 1.2 per cent of global international direct investment went to Africa.

NORFUND co-operates with the International Finance Corporation (IFC) and other similar institutions on supplying venture capital and equity to lower the threshold for high-risk investment in developing countries. Such co-operation involves both direct investment and investment in funds and local financial institutions.

The government has made it clear that it expects Norwegian companies to adhere to key principles of corporate social responsibility (CSR) including with regard to human rights and the environment. The role of foreign direct investment in development and the need to consider environmental issues, human rights and other societal effects of economic activity are being addressed through "KOMPAKT", a dialogue forum that brings together companies, civil society organisations and government. The UN "Global Compact", which was established later, was to some extent modelled on this forum. The Norwegian government and Norwegian oil and gas companies have also taken an active role in the Extractive Industries Transparency Initiative (EITI) and remain fully committed to the objective of increasing transparency and accountability concerning the use of revenues from petroleum activities. Norway also supports measures to stop illegal logging and export of timber.

In 1999 the Norwegian government launched a new strategy for private sector development in our partner countries. The strategy, which includes trade, aims at contributing to improved conditions for private sector development with a special emphasis on activities that benefit the poor and create employment. Furthermore, the strategy emphasises responsible macroeconomic policies, effective administrative capacities, good physical infrastructure, and a good institutional and legal framework for enterprise, investment and trade.

The Norwegian Petroleum Fund invests part of the government's revenues from the petroleum activities on the Norwegian continental shelf in stocks and securities. According to its mandate, it is to seek to achieve a satisfactory return on its investments, to invest part of the funds to promote a better environment and to pursue a high standard regarding human rights. The fund is not required to invest in developing countries, and only some countries are eligible based on specific risk management criteria. Investments have, however, been made both in South Africa and in Brazil.

## 3.3 Voluntary Organisations (NGOs/CSOs)

Partnership with civil society in both the North and the South is an important element in the efforts to reach the MDGs. In many developing countries non-governmental organisations play an important role by providing basic educational and health services that are essential in the fight against poverty. These organisations are also

14 A Washington DC-based think tank. See: www.cgdev.org. The index is published together with the magazine Foreign Policy http://www.foreignpolicy.com/index.php

15 Less than 0.25 cent annually if shipping investments in Liberia are excluded.

important driving forces in political efforts to safeguard human rights in general, and to ensure that poor, marginalised groups in particular attain a better standard of living and are able to realise their rights. Civil society organisations contribute to the political dialogue and to the general effort to monitor government policies.

Private voluntary organisations/non-governmental organisations (NGOs)/civil society organisations (CSOs) are important channels for Norwegian development assistance. More than 20 per cent of Norwegian ODA is channelled through CSOs. They also contribute substantial funding of their own. It is estimated that they raise at least NOK 1 billion a year for development purposes from sources other than the Norwegian government. This high percentage applies to religious and secular organisations, both of which have always based a large part of their activities on voluntary contributions. The success of fund-raising campaigns in co-operation with the media shows that the general public is still very supportive of these organisations' work in developing countries. This is confirmed by opinion polls, which for many years have indicated that the Norwegian people are strongly in favour of development assistance; the figure has been consistently close to 90 per cent. Norway also ranks high in terms of providing incentives for charitable giving from private sources.[16] The fact that Norwegian development CSOs raise 25 per cent of their funding from such sources indicates that this policy has a positive real effect.

Under Norway's current development policy, the CSOs' role as suppliers of services is part of the broader development and poverty reduction efforts, and must therefore be in line with harmonisation and alignment principles. This means that their efforts must be adapted to the countries' poverty reduction strategies and plans for the various sectors the organisations are engaged in. This is now a precondition for receiving funding from the Norwegian government.

Norway channels a large share of its development assistance through Norwegian CSOs, which indicates the high priority given to civil society as an agent of development. An important goal is to strengthen civil society in the South. Such organisations also have an important role to play as service providers, as a social conscience on behalf of marginalised groups, and as watchdogs of government.

The government will appoint a committee to assess the results of the development co-operation carried out by Norwegian CSOs in relation to the need for a coherent overall effort to combat poverty and reach the MDGs.

[16] According to the 2004 Commitment to Development Index compiled by the Center for Global Development.

# 4 OPTIONAL TOPICS

## 4.1 Ethical guidelines for the Norwegian Petroleum Fund

The Norwegian Government Petroleum Fund was established by law in 1990. When the Act was passed there was broad consensus in the Storting on its investment strategy: the Fund was to be managed with the objective of high return and moderate risk, and the capital was to contribute to safeguarding the future basis for social welfare, including national pensions. It was decided that this can best be achieved with the Fund as a financial investor with small ownership shares in individual companies. The Fund's investments are made[17] to ensure that the return is on a par with broadly diversified equity and bond indices in countries with well-developed corporate, stock market and securities legislation. The return on the foreign securities comprising the investment determines exactly the return on the Petroleum Fund. At the end of 2003, the Government Petroleum Fund amounted to NOK 847.1 billion.

Under the Act the Fund's income is defined as the government's net cash flow from petroleum activities and the return on the Fund's capital. The Fund's expenditure consists of an annual transfer to the Ministry of Finance equivalent to the government budget deficit excluding income from the petroleum sector.

The 2004 Revised National Budget included new ethical guidelines proposed by the government for the management of the Fund. They have now been approved by the Storting. The Fund is to be managed in accordance with ethical guidelines that ensure fulfilment of two obligations: a) to ensure that future generations receive a fair share of the revenues from the petroleum activities and b) to respect the fundamental rights of those who are affected by the activities of companies in which the Fund invests.

The ethical guidelines have three elements:

- Exercise of ownership rights to promote long-term financial returns. Long-term returns will generally benefit from a portfolio made up of companies that show respect for universally accepted norms of ethical behaviour.
- Negative screening to exclude companies that produce chemical and biological weapons, anti-personnel mines, weapons with non-detectable fragments, incendiary weapons, blinding laser weapons, nuclear weapons and cluster bombs. These are weapons whose normal use violates fundamental humanitarian principles.
- Exclusion of companies in which there is deemed to exist an unacceptable risk of contributing to violations of fundamental humanitarian principles, gross violations of human rights, gross corruption or severe environmental degradation.

Norges Bank is responsible for the implementation of the corporate governance policy, while the Ministry of Finance is responsible for decisions regarding ethical constraints on the Fund's investment universe. The Ministry of Finance has established an external council that includes human rights experts to advise the Ministry on negative screening and exclusion under the ethical guidelines.

## 4.2 Fighting Corruption

The Norwegian government views corruption and money laundering as obstacles to a fairer and more predictable trading and financial system and has taken an active stand against it. Support to partner countries is part of the Norwegian effort both to help improve governance on a broad scale and, more specifically, to develop an environment favourable to investment and adverse to capital flight. Discussions on corruption and money laundering today figure as a regular item on the agenda of the development policy dialogue between Norway and partner countries. During the last four years Norway has more than doubled its annual contributions to good governance activities in partner countries. The overall impact of these efforts in terms of improved transparency and accountability in policy making and public administration represents an important contribution in the fight against corruption. In addition, institutions that are directly involved in fighting corruption are increasingly benefiting from Norwegian good governance support.

Norway is fighting corruption at home, in partner countries and internationally. Stringent legislation and robust enforcement are considered essential in order to minimise the risk of Norwegian actors adversely influencing public finances and the political culture of other countries. Special units have been set up both within the po-

[17] By Norges Bank.


*Widespread corruption hinders development in many countries* Photo: Matthias Kulka, CORBIS

lice and in Økokrim to fight these types of crime. Close dialogue with business and industry on these matters is also important in order to ensure co-operation with the private sector.

In 2002 a three-year intergovernmental project was launched against corruption and money laundering. The project has resulted in Norway's participation in many international co-operation activities, including the Financial Action Task Force (FATF) on money laundering and the anti-corruption body of the Council of Europe (GRECO).[18] It also participates in evaluations under the auspices of many international co-operation projects and has participated actively in anti-corruption work in the OECD and in the negotiations that led to the new UN Convention against Corruption. Norway will also be involved in strengthening anti-corruption efforts in central multilateral organisations and global and regional forums.

A new government action plan for combating financial crime was presented in 2004. The white paper "Fighting Poverty Together" also strongly emphasises that an intensified fight against corruption and money laundering both in developed and developing countries is a prerequisite for development.

Unlike some other European countries, most corruption cases in Norway in the last ten years involved the private sector. There is however reason to believe that corruption will also increase in the public sector in the years to come. In accordance with the action plan for combating financial crime, the government will therefore consider introducing a stronger obligation for public servants to report on corruption or other unlawful activity in their own organisations. In 2003, Norway introduced new anti-corruption legislation covering many of the obligations under the UN Convention against Corruption. The need for further amendments will be considered. The government is planning to recommend to the Storting to pass the necessary acts to make it possible to ratify the UN convention by 1 July 2005.

Norway also takes part in international efforts through the OECD to deal with tax havens, and advocates that the IMF should focus more strongly on corruption and money laundering in its economic reviews of member states.

[18] The Groupe d'Etats contre la Corruption (GRECO) is an agreement between members of the Council of Europe, which was ratified by Norway in 2000. A GRECO report of 2002 gave a positive evaluation of Norwegian anti-corruption efforts and pointed to the need to formulate guidelines and procedures for whistle-blowing and to consider using special investigative methods in corruption cases. The recommendations have been and will be implemented.

Unlawful or unethical management of the revenues from natural resources can have a strong negative impact on social development. Norway supports the Extractive Industries Transparency Initiative, which aims at achieving greater transparency regarding cash flows between companies in the extractive industries and their host countries. It also aims at ensuring that reporting on the basis of agreed standards will create openness about revenue flows, prevent corruption and promote the equitable distribution of revenues.[19] Norwegian oil companies also support and participate in the Initiative.

### 4.3 Fighting Poverty through Agriculture

The Plan of Action for Agriculture in Norwegian Development Policy, which was launched this year (2004), emphasises the importance of the agricultural sector in the development process. This applies especially to the least developed countries, where more than 80 per cent of the population sometimes live in rural areas and around 70 per cent make their living from primary industries. The Plan of Action draws on the results of the World Summit on Sustainable Development in Johannesburg in 2002 and other relevant conferences and conventions, and outlines the measures the Norwegian government will take to help develop the agricultural sector in partner countries.

*Policy and reforms for poverty-oriented agricultural development* will be supported. This includes basing support for agricultural development on countries' own strategies, supporting sector programmes beneficial to agricultural development, and helping to improve co-operation between the UN's agricultural organisations, FAO reform and financing for agricultural development. Malawi and Ethiopia have been chosen as pilot countries for intensified bilateral efforts to promote agricultural development.

*Food security* will be promoted. Norway will continue to participate in the crucial FAO process of preparing guidelines for realising the right to food and intends to untie its food assistance by 2006. A restrictive position on genetically modified organisms and food will be maintained.

*Strengthening women's rights and their participation in agricultural development*. Women's rights in policy making as well as in the efforts to establish framework conditions both at country level and in multilateral forums must be ensured. Local NGOs that work to promote women's rights will be funded.

*Promoting the sustainable use of natural resources*. Improvement of management systems will be supported and partner countries will be encouraged to include the principles of sound management of natural resources in national agricultural development plans. Multilateral organisations will be encouraged to do the same in their plans. The WEHAB[20] agenda from Johannesburg will be followed up. Innovation among small and large producers will be supported. Indigenous peoples' efforts to preserve their culture, realise their rights and participate in development processes will be supported. The government will seek to ensure that the International Treaty on Plant Genetic Resources for Food and Agriculture and other relevant rules enter into force. It will also advocate that open access to plant genetic material be secured and seek to ensure that the conservation of plant genetic resources is integrated into the ordinary agricultural policies of the relevant multilateral organisations and into bilateral development assistance.

In many developing countries, the agricultural sector consists of a large number of small farmers who cannot afford to purchase protected seed material very often. In many such farming communities, there may also exist a long tradition of local seed management, where small farmers use seed from their own crops or exchange seed with their neighbours, or sell seed in their local markets. Such local seed management may be important for many small-scale farming communities, both economically and socially. In many countries traditional seed management at the local level is also important for local food security. Norway is of the view that the TRIPs agreement allows for the necessary flexibility to accommodate both the interests of small farmers in developing countries ("farmers' rights") and those of modern plant breeders.

*Strengthening basic services and extending legal rights to land and other assets to the poor.* Norway will help strengthen the property and user rights of the poor and promote their integration into national plans and strategies for poverty reduction. Women's rights will be given priority in this context, and partner countries will be encouraged to carry out reforms to formalise women's access to land and other natural resources. The human rights and wage conditions of small farmers and landless rural workers will be given attention. Norway will help establish institutions for small-scale credit in co-operation with partner governments and other donors. Norway also supports the establishment of independent producer organisations, which may facilitate small farmers' empowerment and participation in development. Equity capital to commercially and environmentally sustainable projects will be provided through NORFUND.

*Strengthening education and research*. Direct involvement will be focused on areas where Norway has special expertise. CGIAR centres will continue to be supported, with priority being given to research in sub-Saharan Africa and the needs of small farmers and women.

[19] Further information about the Extractive Industries Transparency Initiative may be found at www.dfid.gov.uk.
[20] WEHAB. The decision made at the Johannesburg summit to give priority to the water, energy, health, agriculture and biodiversity sectors.

*Promotion of market development.* Norway will promote improved access to world markets for agricultural products in the WTO negotiations. It will provide technical and financial assistance with the aim of helping partner countries exploit their export potential and will give priority to measures for increasing productivity and improving production methods, product safety and quality according to internationally accepted standards. Norway will intensify its efforts to increase the volume of imports from developing countries. It will intensify co-operation with ethical trade constituencies, and assist in the further development of South-South trade.

### 4.4 "Ranking the Rich"

There is a clear need for rich OECD countries to report not only on their progress in helping to realise MDG8, but also on how well they are doing in adapting their broader policies, and how active they are being in helping to adjust the international framework conditions to the fight against poverty. The most important policy areas in this respect, trade, environmental protection, migration – remittances and brain drain/ brain gain – technology transfers, knowledge development, capacity building, security issues, investment and development assistance, were mentioned in section 1.2 on policy coherence.

Norway has maintained that the OECD's system of peer reviews seems to be well suited for holding members accountable for their policies in these areas. In our view the initiatives that have been taken by the OECD Council to improve policy coherence for development in these areas among member states (cf. the OECD's Horizontal PCD Project) should be followed up by an annual OECD report on members' performance, regarding policy as well as practice. There is, however, a serious lack of data as to the impact of OECD country policies on developing countries, and we think that the OECD would be a highly suitable organisation to promote further research to fill this gap. The OECD could function as a hub in a research network of this kind.

The Commitment to Development Index has triggered a good deal of debate on policy coherence. It succeeded in making governments examine critically a wide range of their North-South policies in addition to development co-operation. The index is compiled from seven sub-indexes, each dealing with one of the following policy coherence-relevant topics: trade, technology transfer, security, environment, migration, investment and development assistance.

The first CDI was published in 2003, with the Netherlands topping the list of 21 OECD countries and Norway as tenth. In the 2004 edition of the index, Norway ranks seventh, together with the USA, Germany and France. Norway scores particularly well on aid, and its modest overall position is mainly due to a low score on trade in agricultural products and to the use of data in this regard.[21] We have also received lower scores than expected on the aid index and on environment, which we believe to be partly due to methodological problems and the problem of finding representative data for later years. The years chosen do not seem to capture the fact that Norway has recently made significant improvements in terms of policy coherence like the reduction of fisheries subsidies that has taken place.

[21] This low score is partly, but not primarily, due to old data that does not take account of the recent abolition of quotas and tariffs on textiles and clothing from all developing countries, and the total abolition in 2003 of tariffs and quotas on all products from the least developed countries. There are also other methodological problems attached to these calculations.

# Appendix

## MDG goals and targets relevant for this report

| | |
|---|---|
| **Goal 7:** | **Ensure environmental sustainability** |
| **Target 9:** | Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources |
| **Goal 8:** | **Develop a global partnership for development** |
| **Target 12:** | Develop further an open, rule-based, predictable, non-discriminatory trading and financial system<br><br>Includes a commitment to good governance, development, and poverty reduction – both nationally and internationally |
| **Target 13**: | Address the special needs of the least developed countries<br><br>Includes: tariff and quota free access for least developed countries' exports; enhanced programme of debt relief for HIPC and cancellation of official bilateral debt; and more generous ODA for countries committed to poverty reduction |
| **Target 14:** | Address the special needs of landlocked countries and small island developing States<br><br>(through the Programme of Action for the Sustainable Development of Small Island Developing States and the outcome of the twenty-second special session of the General Assembly) |
| **Target 15:** | Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term |
| **Target 16:** | In co-operation with developing countries, develop and implement strategies for decent and productive work for youth |
| **Target 17:** | In co-operation with pharmaceutical companies, provide access to affordable, essential drugs in developing countries |
| **Target 18:** | In co-operation with the private sector, make available the benefits of new technologies, especially information and communications |

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