NOU Official Norwegian Reports 2008: 14

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How coherent Norwegian policies can assist development in poor countries

The Policy Coherence Commission was appointed in a cabinet meeting held on 8 December 2006.
The report was submitted to Erik Solheim, Minister of the Environment and International Development, on 9 September 2008.

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Letter of dispatch

In a cabinet meeting held on 8 December 2006, the Norwegian government appointed a commission to study how Norwegian policies affect development in poor countries. The Commission hereby presents its proposals of how Norwegian policies can contribute to economic growth and social development in poor countries. In this context Norwegian policies also comprise framework conditions for private enterprises and Norwegian initiatives and positions in international fora in which Norway participates. The Commission hereby presents its report and regards its work to be complete.

Oslo, 9 September 2008

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List of attreviations

ACP	African, Caribbean and Pacific Group of States
AID	Ministry of Labour and Social inclusion/Arbeids- og inkluderingsdepartementet
ASEAN	Association of Southeast Asian Nations
AU	African Union
AWPN	African Women's Economic Policy Network
BBC	British Broadcasting Corporation
BORA	Bergen Open Research Archive
BRICS	Brazil, Russia, India, China and South Africa
CBD	Convention on Biological Diversity
CCS	Carbon Capture and Storage
CDI	Commitment to Development Index
CDM	Clean Development Mechanism
CGIAR	Consultative Group on International Agricultural Research
CIMIC	Civilian Military Co-operation
CPI	Corruption Perceptions Index
CSCW	Center for Study of Civil War
CSR	Corporate Social Responsibility
DAC	Development Assistance Committee
DEFINE	The Development, Environment & Finance Exchange
DFID	Department for International Development
EBRD	European Bank for Reconstruction and Development
EEA	European Economic Area
EFTA	European Free Trade Association
EITI	Extractive Industries Transparency Initiative
EPO	European Patent Office
ERC	European Research Council
ESDP	European Security and Defense Policy
ETI	Ethical Trading Initiative
ETI-N	Ethical Trading Initiative Norway
EU	The European Union
EUA	European University Association
EUC	End User Certificate
EURODAD	European Network on Debt & Development
FAO	United Nations Food and Agriculture Organization
FFD	Financing for Development
FDI	Foreign Direct Investment
FIVAS	The Association for International Water Studies
ForUM	Forum for Environment and Development
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GAVI	Global Alliance for Vaccines and Immunization
GCIM	Global Commission on International Migration
GDP	Gross Domestic Product
GEEREF	Global Energy Efficiency and Renewable Energy Fund
GEF	Global Environmental Facility
GFATM	The global Fund to Fight Aids, Tuberculosis and Malaria
GIEK	The Norwegian Guarantee Institute for Export Credits
GRI	Global Reporting Initiative
GRIP	Green in Practice

GSP	General System of Preferences
GSTP	Global System of Trade Preferences
HDI	Human Development Index
HIPC	Highly Indebted Poor Countries
IBRD	International Bank for Reconstruction and Development
ICFTU	International Confederation of Free Trade Unions
ICSID	International Centre for Settlement of Investment Disputes
ICT	Information and Communication Technology
ICTSD	International Centre for Trade and Sustainable Development
IDA	International Development Association
IEA	International Energy Agency
IFC	International Finance Corporation
IFI	International Finance Institution
IGWG	International Working Group on Public Health, Innovation and Intellectual Property
ILO	International Labour Organization
IMF	International Monetary Fund
IOM	International Organization for Migration
IPCC	Intergovernmental Panel on Climate Change
IR	Industrial Property Rigths
ISAF	International Security Assistance Force
ITPGRFA	International Treaty on Plant Genetic Resources
JI	Joint Implementation
JREC	Johannesburg Renewable Energy Coalition
KD	Ministry of Education and Research/Kunnskapsdepartementet
kWh	Kilowatt hour
LDC	Least Developed Country
LDCF	Least Developed Countries Fund
LNG	Liquefied Natural Gas
LO	The Norwegian Confederation of Trade Unions
MAI	Multilateral Agreement on Investments
MCW	Major Conventional Weapons
MDG	Millennium Development Goals
MDTF	Multi-Donor Trust Fund
MIPEX	Migrant Integration Policy Index
MNC	Multi-National Corporation
NAMA	Non-Agricultural Market Access
NATO	North Atlantic Treaty Organization
NGO	Non-Governmental Organization
NifuStep	Norwegian Institute for studies in Innovation, Research and Education
NMI	Norwegian Microfinance Initiative
NOK	Norwegian krone
NOMA	NORAD's Programme for Master Studies
NORA	Norwegian Open Research Archives
NORAD	The Norwegian Agency for Development Cooperation
NOU	Norwegian Official Reports
NUFU	Nasjonalt program for utvikling, forskning og utdanning
OCHA	Office for the Coordination of Humanitarian Affairs
ODA	Official Development Assistance
OECD	Organization for Economic Co-operation and Development
OfD	Oil for Development
OPEC	Organization of the Petroleum Exporting Countries
OSCE	Organisation for Security and Co-operation in Europe
OTRI	Overall Trade Restrictiveness Index
PCD	Policy Coherence for Development
PCT	Patent Cooperation Treaty

PRGF	Poverty Reduction and Growth Facility
PRIO	International Peace Research Institute, Oslo
PRS	Poverty Reduction Strategies
PRSP	Poverty Reduction Strategies Papers
R&D	Research and Development
REEEP	Renewable Energy and Energy Efficiency Partnership
REN21	Renewable Energy Policy Network for the 21st Century
SACU	Southern Africa Customs Union
SCCF	Special Climate Change Fund
SIPRI	Stockholm International Peace Research Institute
SP	Special Products
SPARC	The Scholarly Publishing & Academic Resources Coalition
SSB	Statistics Norway (SN)/Statistisk sentralbyrå
SSM	Special Safety Mechanism
SSR	Security Sector Reform
TB	Tuberculosis
TFESSD	Trust Fund for Environmentally and Socially Sustainable Development
TOI	Tour Operators Initiative for Sustainable Development
TRIM	Trade-related Investment Measures
TRIPS	Trade-related aspects of Intellectual Property Rights
UD	Ministry of Foreign Affairs (MFA)/Utenriksdepartementet
UHR	The Norwegian Association of Higher Education Institutions
UK	United Kingdom
UN	The United Nations
UNAMA	United Nations Assistance Mission in Afghanistan
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Fund
UNEP	United Nations Environmental Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNFCCC	United Nations Framework convention on Climate Change
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
UNIFEM	United Nations Development Fund for Women
UNWTO	United Nations World Tourism Organization
UPOV	International Union for the Protection of New Varieties of Plants
USD	US dollar
WB	World Bank
WDR	World Development Report
WHO	World Health Organization
WIID	World Income Inequality Database
WIPO	World Intellectual Property Organization
WSSD	World Summit for Sustainable Development
WTO	World Trade Organization
WWF	World Wide Fund for Nature

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Chapter 1
Mandate and work of the Policy Coherence Commission

1.1 Background

The Policy Coherence Commission was appointed by the cabinet on 8 December 2006 upon recommendation by the Minister of the Environment and International Development. The task of the Commission has been to study how Norwegian policy, beyond purely development aid policy, affects the development in poor countries and to suggest proposals on how Norwegian policies can be modified in order to make it more in harmony with the aim of facilitating economic and social growth in developing countries. The Commission has discussed how Norwegian policies that are primarily aimed at regulating domestic conditions affect development and the fight against poverty in developing countries and has considered similar effects of Norwegian initiatives and positions in regional and global organisations and forums.

The Commission summarises its discussions in this report and analyses how a more coherent policy for development can be realised. The report describes the challenges this creates for Norwegian policies in the most relevant areas and presents definitive suggestions for initiatives to tackle these. The recommendations include initiatives to adapt Norwegian policies in order to make them more coherent with development goals. They also include initiatives to establish organisational solutions to ensure that a long-term institutional basis can be created within in the Norwegian administration to secure a firm basis for the ongoing work of establishing more coherent policies for development. The Commission also discusses how the private sector can contribute to better policy coherence for development.

1.2 Mandate for the Policy Coherence Commission

The Norwegian economy is relatively small, and a recent pilot study has shown that Norwegian policy in isolation has relatively little direct effect on poor countries' economies and their development opportunities. However, it can have a significant effect in combination with other countries' policies, and through alliances and partnerships where Norwegian viewpoints can be facilitated. Concrete knowledge of the actual effects of Norwegian policy in different areas is currently limited. By improving knowledge and raising awareness of how Norwegian policy as a whole, including both bilateral and multilateral efforts, influences developing countries' opportunities for economic and social growth, it will be possible to develop a better basis for balancing Norwegian interests against those of developing countries.

This is why the Government has decided to Commission an Official Norwegian Report that will analyse points of contact, conflicts of interests and freedom of action. It is intended to improve our knowledge of the effects of Norwegian policy on poor countries, and will provide a better basis for evaluating how it can contribute to reducing poverty in these countries.

The Commission will identify the aspects of Norwegian policy that have most significance in principle and practice for combating poverty in developing countries. In practice, Norwegian policy has direct effects on factors that influence poverty. In principle, Norwegian policy sends signals to other OECD countries where it is put into practice in cooperation with other countries, and can exert an influence in international organisations and forums.

The Commission is to focus on the following topics as a starting point, but can also evaluate other fields that it finds relevant:

– trade policy in the widest possible sense
– business, competition and labour market policy
– fiscal policy, including efforts via the international economic institutions
– migration policy, including immigration policy and the transfer of funds to countries of origin
– environmental, energy and resource policy, including food security in the widest possible sense and the management of global public goods such as the climate system
– defence, peace and security policy, including civilian and military contributions to international peace and crisis management operations

- research and development policy (including ICT issues), for example contributions to technological advances of great importance to developing countries
- Norwegian private-sector investments in developing countries, including corporate social responsibility and anti-corruption efforts
- marine, fisheries and aquaculture policy
- health policy, including the organisation of health-related research and the recruitment of health workers from developing countries, and Norway's contributions to efforts to resolve global issues related to the control of communicable diseases and environmental health care.

The goal of minimising the negative effects and reinforcing the positive effects of Norwegian policy on the fight against poverty in the South is to form the basis for the Commission's work. The Commission is to describe the key problems associated with achieving this goal, and use its expertise to make proposals for how these problems can be resolved.

In its work, the Commission should take into account relevant issues arising from the UN Millennium Development Goals, particularly Goal No. 8 and Norway's progress report on this goal, *Global Partnerships for Development*, in addition to relevant issues discussed in the white paper *Fighting Poverty Together* (Report No. 35 (2003–2004) to the Storting) and the white paper on globalisation (Report No. 19 (2002–2003) to the Storting). It should also take account of the Commitment to Development Index, which is published annually by the Center for Global Development, and other key documents the Commission considers relevant.

Given the present limited knowledge base, the Commission will need to acquire more information in various ways. To some extent, the Commission will be able to obtain the necessary information through contact with key institutions working in this field, both within the OECD area and in developing countries. The Ministry of Foreign Affairs will assist the Commission in obtaining the information it needs from other ministries, research institutions and other public bodies, and from authorities in other countries, including developing countries.

1.3 Composition and work of the Commission

The Commission is made up as follows:
- Gunstein Instefjord, department head, Norwegian Church Aid, (chairman)
- Julie Christiansen, former member of parliament for the Conservative Party
- Hildegunn Gjengedal, director, The Brussels Office of The Federation of Norwegian Agricultural Co-operatives
- Anne K. Grimsrud, adviser
- Lars Haltbrekken, head, Friends of the Earth Norway
- Linn Herning, board member in Attac
- Audun Lysbakken, deputy lead, Socialist Left Party of Norway
- Kristian Norheim, international secretary, Progress Party
- Kristin Røymo, head of unit, UNN
- Nina Røe Schefte, head of environment and social affairs, IKEA
- Åsne Seierstad, author
- Camilla Stang, manager, Ernst & Young
- Malin Stensønes, director, The Norwegian Shipowners' Association's Brussels office
- Arne Strand, senior researcher, CMI/PRIO Cyprus centre
- Camilla Bakken Øvald, economist
- Håvard Aagesen, senior adviser, Dinamo

The Commission members represent a cross section from public administration, research, the business sector, voluntary organisations and culture, and reflect broad international expertise. A total of 29 plenary meetings were held to discuss the work of the Commission, and focus groups were also formed with responsibility for the key specialist areas. In order to obtain relevant information and gain insight and feedback on the work and views of the Commission, open consultations were held on trade, investments, industry and commerce, the climate, energy and security. The Commission or parts of the Commission have visited places including Kenya and other developing countries in order to gain first hand experience of the conditions in countries where the effects of Norwegian and international development policies can be seen. They have also visited research institutions and other institutions both in Norway and abroad that work with the problems studied by the Commission, and consulted with international experts.

The Commission has organised the work in focus groups, with Linn Herning heading the focus group for trade and investment policy, Julie Christiansen heading the focus group for the climate and energy policy, Malin Stensønes heading the focus group for peace, security and defence policy and Kristian Norheim heading the focus group for migration and labour market policies.

The Ministry of Foreign Affairs devised the mandate for the Commission and made budget resources available for the work. Statistics Norway undertook the role of secretariat for the Commission, with support from the Ministry of Foreign Affairs and a number of research institutions.

Chapter 2
Executive summary

2.1 What the study comprises

The task of the Commission was to consider the possibilities for aligning all relevant Norwegian policies so as to contribute to development in poor countries. The Commission discussed the policy in seven areas which it considered particularly relevant with regard to creating a coherent policy for development. The Commission has presented its findings and suggested improvements for all areas. The proposals that the Commission sees as the most important are summarised at the end of this chapter. In many cases it can be seen that the Commission is split both regarding the appreciation of facts and proposals, which reflects the wide range of political views held within the Commission. The format chosen in the report implies that some of the topics the Commission was appointed to study in line with the mandate are presented as sub-problems under other headings.

In the introduction of *chapter 3*, the Commission discusses its vision for, perspective on and global framework conditions for the work, followed by central problems within the following policy areas:

Trade (Chapter 4). The Commission discusses a number of issues concerning trade. The World Trade Organisation is the global forum for shaping international trade rules and regulations and discussion of the WTO-negotiations is therefore central to this report. More specifically, market access and policy space for poor countries and preference systems are discussed, as well as Norwegian positions and different approaches by Norway with regard to negotiations on agriculture as well as products from manufacturing industries and fisheries. Controversial questions concerning the trade in services and intellectual property rights, the equal treatment of countries in relation to agreed trade regulations versus policy space, negotiation procedures that do not always benefit developing countries and the dispute resolution scheme. The chapter also discusses bilateral trade agreements, tourism, consumer policies as well as ethical and fair trade.

The degree to which the *investment policies (Chapter 5)* adopted by rich countries will be effective and beneficial to developing countries depends on the security situation, set-up costs for doing business, rule of law, how well rooted corruption is the country etc. The development effect of foreign investment is also likely to vary according to factors such as tax revenues, employment and the extent of local supply of goods and services. Investments in developing countries represent an extra uncertainty for investors and some of the areas discussed in this regard include the Norwegian Guarantee Institute for Export Credit's (GIEK) policies and the organisation of its guarantee schemes, which are central to minimizing this uncertainty. The challenges relating to bilateral investment agreements is a another key problem that is discussed.

A further crucial issue is the investment policy of the Government Pension Fund – Global and its poor focus on developing countries and Africa. The Norwegian Government's social responsibility as an owner and investor and the lack of guidelines for the execution of this responsibility are also discussed in addition to investors' social responsibility in general.

The international financial institutions and the UN (Chapter 6) play a major role in developing countries' fight against poverty through aid, lending and their more or less forced advice on policy-making. The Commission notes the skewed balance of power in the World Bank and The International Monetary Fund (IMF), which results in the developing countries having very limited influence on conditions of major significance to their own development. The Commission recommends that Norway promotes greater representation and voting weight for the developing countries in the Bretton Woods Institutions' governing bodies, that the IMF and the World Bank's management are appointed using a more democratic method in the future

Climate change (Chapter 7) is likely to have a more detrimental effect on the poorest countries and population groups than on rich countries, despite the former only being a minor contributor to the problems. This is due to their geographic location, topography and a lack of resources to adapt in many countries. The Commission notes that in the worst case scenario climate change can lead to a reversal in the process to reduce poverty. Considering the current rate of development and dissemination of cheap purifying technology and present restrictions in rich countries' energy consumption there is little chance that the world will be able to offset the CO_2 emissions which would result from full realisation of the Millennium Development Goal no. 8 in all countries. A coherent policy for developing the poor part of the world will, according to the Commission, require rich countries to initiate special measures within energy conservation, a reduction in the use of fossil fuels and in relation to the development and consumption of clean renewable energy. If this is unsuccessful, the climate problem can contribute to cementing global disparities in welfare and income.

Knowledge transfer (Chapter 8). Targeted knowledge-building is a prerequisite for enabling developing countries to follow a positive development path after escaping poverty. Well-developed basic education and vocational training are essential for a good recruitment basis for higher education as well as research of a high standard. The Commission notes that Norway makes a relatively small contribution to developing the global knowledge base. Norway's investments in research are just 1.5 per cent of the GDP, which is well below both the OECD average and that of countries comparisons are normally drawn with.

Intellectual property rights such as patents and copyright are aimed at stimulating research and innovation, but at the same time they also impede public access to new knowledge and technology. A political development aimed at increasingly greater protection of intellectual property rights in Norway and other western countries will result in the reduction of transfer of knowledge and technology to poor population groups in developing countries. The Policy Coherence Commission discusses this and suggests proposals for how Norway can help to build knowledge.

Migration and remittances (Chapter 9). International migration can help to improve welfare, not only for migrants and their families but also for the countries that send and receive migrants. Norwegian immigration and integration policy can thereby also help to reduce poverty in developing countries. Research shows that developing countries get the largest financial benefits from emigration of unskilled workers, while the majority of recipient countries prefer well-educated immigrants. Developing countries also have a great need for people with higher education and skills, but they find it difficult to compete with salaries in the north. Norway has initiated measures to limit active brain drain from developing countries, and the Commission has proposals for additional measures.

Migration also generates large cash flows back to the developing countries. The Commission discusses how these transfers can be facilitated and how transaction costs can be reduced so that the development effect of the funds can be increased.

Peace and security (Chapter 10) are fundamental to the development of states as well as citizens' welfare. They are therefore important prerequisites for development and the reduction of poverty. Two thirds of Africa's poor are in countries that are or have recently been involved in conflicts, and the civilian population bears the greatest burden both during and after the conflicts. Countries with weak governance and valuable natural resources are more exposed to conflicts than others. Preventing conflicts, reducing the level of conflict using military means, preventing the use of weapons that to a large extent affect the civilian population and helping to negotiate peaceful solutions are all important poverty-reducing measures. Participation in measures to stabilise the situation in such countries, protect the population against violation of their rights and integrity and getting the parties to find a peaceful resolution are in many cases absolutely vital for other development initiatives to have any effect. Norway takes an active part in the entire range of civilian and military peace initiatives. The Commission discusses how this work can be made more coherent in Norway and internationally in order to contribute to development in the global south.

Contributions from development experts (Appendices). The Commission asked four development experts who are either based in or have experience from developing countries, to comment on the Commission's mandate and work. Their interesting contributions have given inspiration to the work and are given as appendices to the report.

2.2 The Commission's key recommendations for a more coherent development policy

Trade

1. The Commission recommends that greater emphasis is placed on considerations to development when framing Norwegian negotiation positions in the World Trade Organisation

(WTO). During negotiations, Norway needs to attach importance to both market access and policy space for developing countries. In relation to its work with the WTO, Norway should try to reduce both direct and indirect export subsidies as far as possible, and undertake a critical review of all Norwegian subsidy schemes in light of this. The majority of Commission members also recommend that work is carried out to clarify and expand the definition of public services with the objective of protecting water, health and education from the negotiations. Norway should also reduce its demands for market access in developing countries within the negotiations for fish and industrial products since the Norwegian export of fish and seafood produce must not be forced at the expense of developing countries' opportunity for duty protection of the manufacturing and sea industry sectors.
2. The majority of Commission members recommend that Norway emphasizes asymmetry in bilateral and regional trade agreements so that developing countries are given both favourable market access and protection rights.
3. The Commission recommends exemption from VAT for goods certified by independent schemes which guarantee that the product is produced using sustainable production methods, that workers rights are respected and that the price the workers receive is adequate in relation to production and living expenses.

Investments

4. The Commission recommends that the Government Pension Fund – Global aims a considerable proportion of the investments at positive screening for renewable energy and relevant climate technology. In this way, the fund can aid a more speedy technology development within sustainable energy and climate-friendly technology. This is an area where Norwegian investments can have a global significance.
5. The Commission recommends that a fund is built up over a 5-year period, amounting to NOK 10 billion for investments in low-income countries, with special focus on Africa and the least developed countries (LDC). The fund should be channelled through Norfund, which should be given latitude to increase its administration capacity as investments in poor countries are resource-intensive. The fund should be administered separately from the aid-financed investment portfolio and owned by the Ministry of Finance. The majority of the Commission's members require that strict conditions are set regarding the development effects of the operations of this fund and that knowledge centres in developing countries should be invited to contribute in forming the operational toolkit and governing structures of the fund.

The international financial institutions

6. The majority of the Commission recommend a democratisation of the international financial institutions whereby developing countries are given a greater voting weight and the scheme where the USA and EU appoint the institutions' leaders is phased out. Economic conditionalities that entail requirements for privatisation and liberalisation should not be utilized by either the IMF or the World Bank.

Climate and energy

7. The majority of the Commission recommend that Norway should work to establish a climate agreement covering all countries, which limits global warming to a maximum of 2 °C, and helps balance disparities in welfare and income. This entails poor countries also being given room to increase their emissions and rich countries having to finance emission reductions in developing countries. Emission obligations and the financing of climate initiatives must be based on countries' historical responsibility and financial capacity, and safeguard the right to development for poor countries. Norway should aim to establish agreements and solutions that ensure financing and the implementation of emission reductions, technology development, technology transfers and adaptations in developing countries.
8. The majority of the Commission suggest that, until a climate agreement is in place that sets a limit for emissions in all countries, Norway allocates 1.5–3 % of its annual GDP, which corresponds to around NOK 30–60 billion a year, to measures aimed at reducing the greenhouse gas emissions both in Norway and internationally. Simultaneous to this, Norway needs to undertake efforts to ensure that the 10–20 other richest countries allocate an equal share of their GDP to climate-related measures. The Commission believes that Norway needs to be a low-emission society by 2050, with emissions that are at least 90 per cent lower than the current level. This will mean emissions per capita

on a par with what the global average must be based on if we are to achieve the goal of limiting global warming to 2 °C.

Knowledge policy

9. The Commission recommends that Norway prioritises global knowledge needs and the developing countries' need for knowledge by escalating the public research effort. A minimum of 10 per cent of the research effort should be aimed at this. Global knowledge needs and the developing countries' need for knowledge should be included in all of the ministries' sector responsibilities for research, and in the mandate for public research institutions such as universities and university colleges. It is also recommended that the Norwegian authorities impose a provision for public research institutions and recipients of public research funds to make research results publicly available. Norway should undertake international efforts to prevent developing countries being pressurised into introducing a more stringent legal system for intellectual property rights.

Migration

10. The majority of the Commission recommend that the immigration of unskilled workers from outside the EEA is permitted, and that Norway to a greater extent attempts to fulfil developing countries' proposals for the liberalisation of movement of labour in the GATS negotiations. Norway should also initiate the commissioning of a report on how labour migrants can be treated more equally, regardless of country of origin. The Commission believes it is important that, pending international guidelines, Norway draws up national guidelines for the responsible recruitment of skilled labour, where measures such as restricting the recruitment of qualified personnel, educating unqualified personnel in Norway and developing compensation schemes are emphasised.

Peace, security and defence policy

11. The majority of the Commission recommends that Norway prioritises military aid to UN-led operations, but that it should also provide forces for NATO and EU-led operations where these have the required legality from the UN Security Council. It is also recommended that the Government undertakes a review of the current organisation and routines linked to the preparation, initiation, implementation and evaluation of international operations in order to consider improvements with a view to achieve more coherent policies and multi-disciplinarity in all levels of the decision-making process. A national council should be established for handling the entire scope of Norway's involvement within international crisis management, conflict negotiations and peace work.
12. The Commission recommends that Norway introduces tracking mechanisms for weapons and ammunitions. Weapons and ammunition that are manufactured in Norway must be marked with the manufacturer, first buyer and production batch number. Norway must aim to establish a similar international tagging practice. The majority of the Commission also recommend that Norway introduces an end user declaration for weapon exports, also for sales to NATO countries, and sets conditions for any onward sales. A recommendation is further given for Norway to use its ownership interests in the Norwegian arms industry to ensure that the sale of weapons and ammunition is carried out in accordance with rules of a standard equal to those in Norway, including with regard to sales from the group's factories in other countries.

Administrative recommendations

13. The Commission recommends that the Government considers institutional reforms that can strengthen the political and administrative capacity to develop a more coherent policy for development. The Commission recommends that the Government strengthens the civil service's capacity for a collective preparation of political decisions across the traditional boundaries such as the specialist ministries. As in Sweden and the Netherlands, Norway should establish a unit in the Ministry of Foreign Affairs with a remit to monitor relevant policy areas and coordinate this work. A board or liaison committee should be appointed that includes representatives from industry, the trade union movement and the civil society. Research should be commissioned to ensure regular and independent evaluations are carried out to gauge the coherence of Norwegian policies with respect to development.

14. The Commission recommends that Norway follows the example of the UK and other European countries, and introduces regular reporting to the Storting (the Norwegian parliament) of the overall effects and results of Norwegian policies in relation to development goals. This reporting should take place at least once during each parliamentary session. The Commission also recommends that the Government facilitates increased capacity in this field through a more systematic evaluation and analysis of the collective Norwegian presence in developing countries. A regular and independent evaluation of the coherence in policies with respect to development goals should be ensured.

Chapter 3
A coherent policy for development

3.1 The vision

The Policy Coherence Commission believes that the rich part of the world has a special responsibility to be aware of the consequences for developing countries of what in principle is regarded as a national political path. Developing countries are particularly vulnerable to decisions made outside their own country borders. Norway has also acknowledged responsibility for contributing to value creation and the reduction of poverty in these countries through the UN Millennium Declaration, among other things. This does not mean that the Commission believes that all developing countries at all times have identical interests, or that these countries should be deprived of the opportunity to take responsibility for their own political path, but that we in Norway and abroad should help to remove obstacles that we and other parties are responsible for and which prevent them from taking part in the international community on at least equal terms as us.

The need for a more coherent policy for development emanates from the fundamental, mutual dependency that to a growing extent is characterising all policy areas, both in Norway and abroad. The framework conditions for national policies, including in Norway, have changed in almost all areas as a result of international trends, power structures and development features. Similarly, several aspects of Norwegian policies are affecting framework conditions and development opportunities for political authorities in other countries to a steadily increasing degree. The Commission uses the following definition of a coherent policy for development (the OECD's definition):

> *«Policy Coherence for Development (PCD) means working to ensure that the objectives and results of a Government's development policies are not undermined by other policies of that Government, which impact on developing countries, and that these other policies support development objectives, where feasible.»*

Combating poverty, through aid and other means, is an ethical imperative for many. However, there are a number of reasons why poverty should be combated. In a globalised world, reducing the number of poor is a wise investment in a common future. Fewer poor people means that more will be in a position to take part in global economic and cultural interaction, fewer will be motivated to take part in conflicts and more will be able to contribute to measures against the deterioration of the environment. Addressing poverty has both an intrinsic value and is crucial to creating a better common future.

Reducing poverty is closely linked to economic growth and distribution. Economic growth can also have negative effects on global public goods, for example in the form of the deterioration of the environment. A global public good is something that in principle everyone can benefit from and for which the value and significance for each individual is not reduced even although everyone else uses it[1]. There are only a few «pure» global public goods according to this definition, but peace and security, protection against and prevention of the spread of epidemics, financial stability and fundamental human rights, a stable climate, free access to knowledge, opportunities to travel freely and globally agreed rules on trade and investment, all have characteristics of such goods. The condition of these goods is vital to the development in all countries and their inhabitants. A joint task for both rich and poor countries is therefore to strengthen the production of the global public goods and ensure that as many people as possible can benefit from them.

Poor countries do not always have the same prerequisites as rich countries to utilise global public goods. Power is systematically unevenly distributed between countries, and makes some countries dependent on framework conditions set by others. The latitude for action afforded to developing countries is, therefore, often extremely limited. These limitations can have historical reasons, and be due to structures and the division of labour

1. *GLOBAL PUBLIC GOODS: International Cooperation in the 21st Century*, edited by Inge Kaul, Isabelle Grunberg, and Marc A. Stern. Copyright© 1999 by Oxford University Press

Box 3.1 Global public goods

«Global public goods which will benefit developing countries (and Norway) are heavily underfinanced. At the same time, there are sources of significant (global public) finance in the form of excess and underutilized capital at International financial institutions such as the International Monetary Fund (IMF) and World Bank (WB) amounting to as much as USD 100 billion. Norway should spearhead the international effort to allocate this money towards the provision of scarce global public goods and such an effort will produce significant positive outcomes for developing countries without any additional cost to Norway.»

Sony Kapoor, head,
International Finance, Environment & Development Consultant (India, UK, Norway)

established in the world during the colonial period; they can also be due to poor countries' debt burden, and dependency on donors in rich countries or multilateral financial institutions; to the fact that markets in which countries in the north can freely sell their goods are closed to the poor in the south; conflict, either civil conflicts or military dominance from beyond country borders are also key reasons for a lack of development many places in the world. Climate change has an extremely adverse effect on poor countries, despite the historical responsibility for the greenhouse gas emissions mainly lying with the rich countries. Many poor countries can also not benefit from scientific progress in relation to health since the population cannot pay enough since medicines are patented or because too many medical personnel have emigrated. In many countries investors are nowhere to be seen and local capital is invested abroad due to poor legal facilities and administration systems, crime and corruption. A lack of potential and growth in poor countries can therefore be due to external conditions, their position in the global distribution of power and work, and internal problems related to governance.

Successful aid can help poor countries address problems that are due to various forms of poor capacity of one type or another. Aid has played a key role in strengthening the capacity in the health and education sectors in many developing countries. Aid can also improve the production capacity or product quality in such a way that countries can benefit from new trade opportunities, and be used to strengthen infrastructure, the administration and the legal system so that the individual's living conditions, administration of justice and respect for human rights and the framework conditions for investments in industry are improved. Additionally, aid can help to increase the developing countries' own production of global public goods, for example by aid-financed purifying technology reducing CO_2 emissions. Authorities that are really serious about developing their countries can in this way utilise aid to improve both the access to and production of global public goods. Whether using aid in this way is successful also depends on how it is given and the conditions that are set for it.

Governments in poor countries, however, are powerless when it is rich countries' interests or policies that block their access to the public goods. Since Norway and other countries are part of a global system in which power and possibilities are systematically unevenly distributed, aid and good intentions are not the only things needed to make a positive contribution to development. Acknowledgement that conflicts of interest exist between rich and poor countries is required, as is a willingness to consider aspects other than Norwegian interests, and to give up privileges that rich countries currently have in a number of areas. Such changes can be painful to carry through in policy areas that apply to national interests that are regarded as vital and are therefore often difficult to achieve. Nevertheless, there is no excuse for not changing a policy that thwarts development in poor countries.

An attempt to establish a coherent Norwegian policy aimed at countries in the south must, both in relation to aid and other areas, seek to differentiate between different types of countries in order to avoid adopting a policy in which general solutions restrict the countries' latitude to test and develop policies for economic growth that are adapted to national conditions.

The Policy Coherence Commission believes in general that rich countries must become more involved in creating as equal terms as possible for developing countries by ensuring that their policies in all relevant areas are conducive to promoting economic growth and development[2]. As a min-

2. A coherent policy can in principle take its starting point from any policy. Most Governments have a body that ensures the greatest possible degree of coherence in general. A few Governments have also noted that weak, poor countries' interests viewed in relation to strong, rich countries' interests requires that special attention is given to coherence in policies on the terms of development and poverty reduction through regulations, institutions or in other ways.

imum, they must ensure that their policies do not harm the developing countries' battle against poverty. This is what the Commission has considered for Norway's part and is the topic of this report.

The Commission takes for its basis that the analysis for such a coherent policy aimed at promoting development shall have a long-term perspective and focus on the political and economic framework conditions that countries in the south have to adopt a policy aimed at promoting development that can form the basis for reducing poverty. The aim here is not fighting poverty through increasing aid or loans to poor people or countries, but framework conditions that can make it easier for these countries to create long-term economic growth and reduce poverty themselves. It is important to make this distinction since the focus on the development policy is often on aid. Aid can be a crucial and necessary catalyst for contributing to development, but it is far from adequate as a tool to make this sustainable.

3.2 Poverty and inequality

Poverty is often described using statistics, as is also the case in this report. However, figures only tell half the story. Many of us have seen the figures before, read about poverty in the mass media and a few have even experienced it up close. However, only someone who has actually been poverty stricken can really understand what poverty entails, which rules out most of us. The poor themselves describe poverty as «always being hungry, always being tired, being denied our crystal clear rights, not being heard, no one speaking up for us, being overlooked, watching our children die of hunger and disease because we can't afford enough foot or health services, not having enough money to give our children an education and being at the mercy of the weather and growth conditions.»[3] This describes a life that most people would not regard as dignified.

In 2004, around a billion people in low and middle income countries lived in extreme poverty. This equates to almost every fifth inhabitant in these countries[4]. The extremely poor are those with less than USD 1 per day[5] to pay for food, housing, water, energy, health, education and other goods and services. The number that lives on less than USD 2 a day is double that. The majority of the world's poorest do not live in the poorest *countries* in the world. A number of middle-income countries with a growing middle class also have large groups of poor people. Around 75 per cent of the extremely poor live in the countryside and, according to estimates, the majority of them will remain there for a long time to come, despite the increasing urbanisation of poverty.

Figure 3.1 Employment is an important road out of poverty.

The poverty goal of 1 and 2 purchasing power-adjusted dollars a day is an attempt to describe income poverty, and forms the basis for the first Millennium Development Goal. Poverty, however, has many dimensions that are not intercepted through income, and other indicators can supplement the profile of the one-dollar-a-day target. The UNDP's Human Development Index and Human Poverty Index, and the sub-indices these are made up of, are examples of such supplementary poverty indicators. The Gini coefficient is also a measurement of income distribution, and is necessary to see how poverty is spread and develops over time. These indicators do not, however, operate on a

3. Voices of the Poor, World Bank 2000
4. World Bank, World Development Indicators 2007. The World Bank og Oxford University Press http://siteresources.worldbank.org/DATASTATISTICS/Resources/WDI07section1-intro.pdf
5. Purchasing power-adjusted

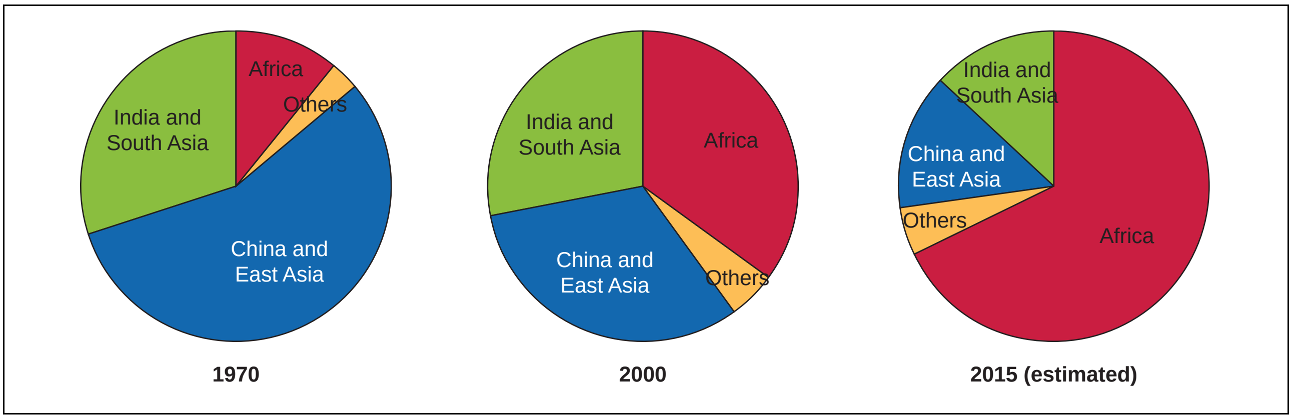


Figure 3.2 Geographic distribution of extreme poverty

Source: GapMinder http://www.gapminder.org/fullscreen.php?file=GapminderMedia/GapTools/HDT05L/application.swf.

country level, and cannot provide definitive estimates of how many people are poor.

The calculations of the poverty development in various countries with the 1 and 2 dollar targets are debatable. The main problem is that they are often based on old or incomplete data. The calculation of the figures is based on comparisons of purchasing power in various countries. An extensive international collaboration programme (International Comparison of Prices) recently produced an update of these price comparisons, where the main aim was to compare the magnitude of the gross national product throughout the world. China and India took part in this work for the first time in a long time. One result of this was that the estimate of the magnitude of China's gross national product fell by 40 per cent. India's economy also turned out to be smaller than previously assumed. This also has consequences for the calculations of the number of poor. The World Bank has not yet completed its most recent analysis at the time of writing, but nevertheless estimates the number of poor in China to be around 3–7 percentage points higher than previously thought, which corre-

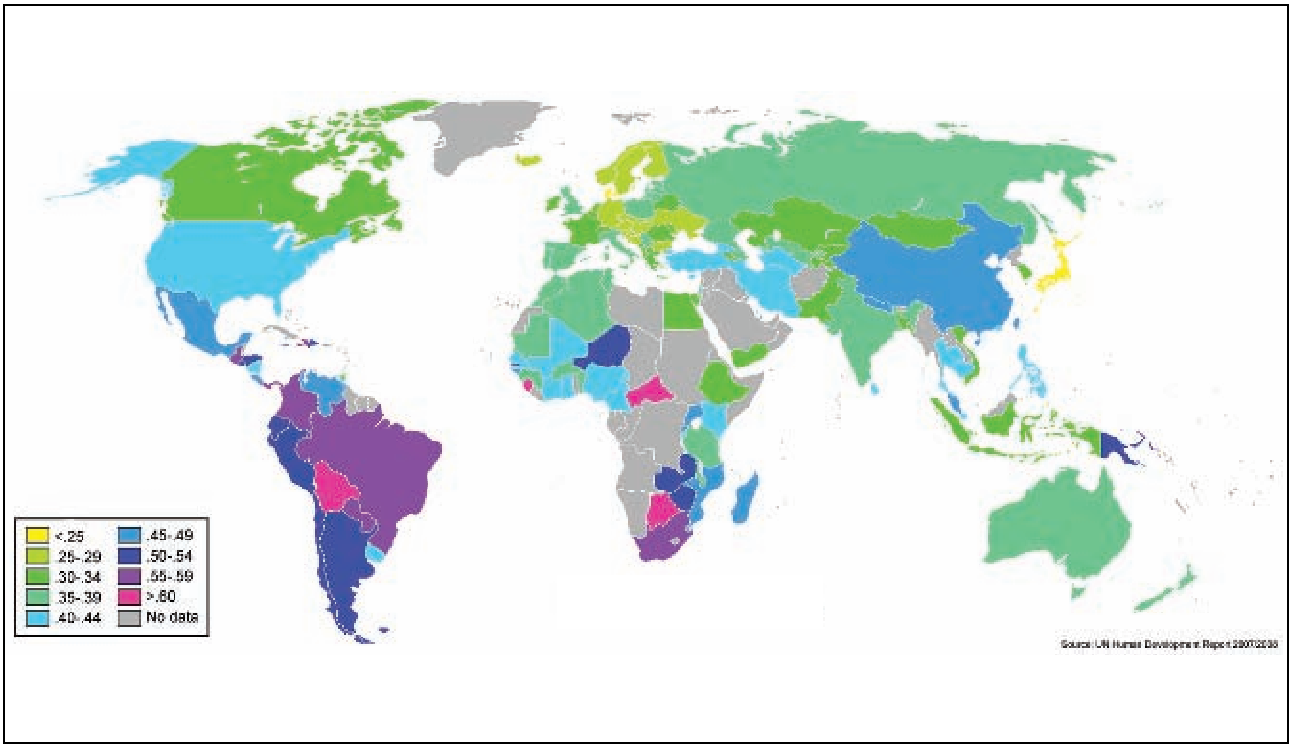


Figure 3.3 Map of global income inequality 2007–2008.

The Gini Coefficient is a measure of income distribution. Low value = low degree of inequality.

Box 3.2 Living on one or two dollars a day in Malawi

The household survey from Malawi for 2004/2005 shows that the members of 57 per cent of the households had to manage on one dollar a day each. Members in 88 per cent of the households had two dollars a day to live on.

A household that spent one dollar a day per member spent around 68 cents of each dollar on food (nothing on alcohol or tobacco), 6 cents on clothing and shoes, 16 cents on housing, 6 cents on health and 4 cents on sundries.

A household that spent two dollars a day per member spent around 1.29 cents on food, 5 cents on alcohol and tobacco, 4 cents on clothing and shoes, 47 cents on housing, 5 cents on health and 10 cents on sundries.

According to calculations by the World Bank, Malawians need 58 cents to cover their minimum calory requirement of 2,100 calories. However, this is only the minimum requirement in life or death situations. A healthy and balanced diet that can ensure children reach their physical and mental growth potential requires much more. This is particularly the case for pregnant women and children below two years of age. Access to nutritional food is therefore vital for mother and child in order to avoid damage caused by a lack of nutrition, which is impossible to rectify afterwards.

The 1-dollar a day households can afford a bit more than the minimum calory requirement, but barely enough to protect their children from malnutrition. The situation is all the more serious because more than half of all Malawian households consume less than the average household in the example.

The 2-dollar households and those earning more, can afford enough nutritional food for all household members. However, this is only slightly more than 12 per cent of all households. In a village economy such as that in Malawi, it only takes one poor harvest for incomes for a large number of these households to fall below the minimum.

The reasons why around a billion people live below the poverty line are many and complex. However, they all face a daily struggle to obtain food, shelter, medicines and education for their children.

sponds to approximately 35–85 million more poor. These new calculations therefore mean that the estimate of the level of poor can change. This does not imply, however, any change in the trend in poverty reductions in these countries.

According to the World Bank, the number of extremely poor in the world fell by 260 million (10 percentage points) between 1990 and 2004[6]. A great deal of uncertainty is linked to the estimates of the number of poor, but calculations from the bank indicate that the fall is due to the positive economic development in many Asian countries, and especially China[7]. In East Asia, the rate of extreme poverty fell from 30 to less than 10 per cent from 1990 to 2004. Almost two thirds of those living in extreme poverty live in Asia, with only 30 per cent living in Africa. South of the Sahara, however, the share of those in extreme poverty is around 40 per cent, with this figure reaching as high as 60 per cent in some countries. In Africa, the living standard of the poor is generally much further below the poverty line than in other parts of the world, which means it will be considerably more difficult to take them up to a respectable income level.

Figure 3.2 shows how the strong economic growth in Asia has affected the global distribution of extreme poverty. If this development continues at the present rate, two thirds of the poorest will live in Africa by 2015. Viewed in isolation, the share of poor in Africa has for a long time stood at around 45 per cent, but fell to 41 per cent from 2002 to 2004. The development in Asia shows that there may be hope for Africa to also gradually reverse the trend and escape from poverty.

Distribution is a deciding factor in the reduction of poverty through economic growth. There is increasing evidence to suggest that the growth's contribution to reducing poverty is considerably lower when inequality in society is growing than when becoming less[8]. The development in inequality is also an important reflection of the prerequi-

6. World Bank: World Development Indicators 2007. The World Bank og Oxford University Press http://siteresources.worldbank.org/DATASTATISTICS/Resources/WDI07section1-intro.pdf
7. Calculations from the International Comparison Programme in 2007 show that the purchasing power in the Chinese economy has been overestimated. Upward adjusted living expenses will be used as a basis for new measurements of poverty, which will no doubt increase the estimates of the number of poor in China.

sites for combating poverty. According to the UNDP, growth strategies that also place the emphasis on reducing inequality will lead to less poverty, both in absolute and relative terms.

An analysis of the information in the World Income Inequality Database (WIID) shows that inequality within countries fell in the 1950s and 70s in most industrialised and developing countries. However, since the 1980s, this development has stagnated or been reversed. The data from the last two decades shows a significant increase in inequality for a number of countries. At the start of the 1980s, 29 of the 73 countries with sufficient figures in the database had a Gini coefficient of more than 0.35–0.40. At the end of the 90s, the number of countries with such a high level of inequality increased to 48. This trend is evident in rich countries as well as poor countries.

Researchers at the University of Oslo have estimated how much redistribution is required to elevate the population in a developing country to above the poverty level of two dollars a day (Lind and Moene 2007)[9]. The lower such a potential tax rate is, the more miserly the country appears. The researchers have found a dramatic increase in global miserliness in the past 30 years. South Africa is the world's most miserly nation, since an income tax of 1.07 per cent of the income from those that are not classified as poor would be sufficient to take the country's entire population above the poverty level. Other miserly countries include Namibia and several countries in South America. All of these countries have relatively large supplies of resources to combat poverty, but little is done. For example, very limited amounts are invested in education and health. At the other end of the scale, we have countries such as Malawi, Tanzania and Mozambique, with an income level that is so low and a poverty level that is so high that not even totally even income distribution would eradicate the poverty. Reducing poverty in countries such as these requires continued high economic growth. The researchers found no correlation between a country's miserliness and economic growth.

8. UNDP (2005): Energizing the Millennium Development Goals: A Guide to Energy's Role in Reducing Poverty. UNDP/BDP Energy and Environment Group http://www.energyandenvironment.undp.org/undp/indexAction.cfm?module=Library&action=GetFile&DocumentAttachmentID=1405
9. Lind and Moene 2007.

3.3 The significance of aid

As a catalyst for initiating key social functions, aid can help to reduce poverty in the short and long term, but aid alone will never be able to solve the world's poverty problems. Research shows that aid is most effective when aimed at the poorest countries with authorities that adopt an active and effective policy for combating poverty[10]. However, it cannot be concluded that aid should mainly go to countries with effective governance. Based on fairness, channels also need to be found to help the poor in countries with weak governance and deficient democracy.

Although Norway is a substantial contributor internationally, no more than 37 per cent of Norwegian bilateral and multilateral aid went to the least developed countries in 2005[11]. Table 3.1 shows that five of the ten largest recipients of bilateral Norwegian aid in 2007 are not classified in the group with low human development by the UN. The table also shows how Norway's wish to play a role in connection with peace processes and conflict-solving characterises the priorities for the aid (Sudan, the Palestinian areas and Afghanistan). Furthermore, three out of the four largest recipients of aid are countries with extremely weak governance. Poor governance such as corruption, political instability and internal unrest constitute a barrier to combating poverty.

The significance of aid for the economies in developing countries varies according to level of development and the magnitude of the economies in the countries. Figure 3.4 shows how foreign investments and migrants' remittances from abroad add up to more than aid to all developing countries. Aid, however, is still an important source of financing for the least developed countries. Figure 3.5 shows that transfers from migrants and direct foreign investments combined account for slightly less than the official development aid to the least developed countries.

Relatively large amounts of Norway's bilateral aid are aimed at Africa – almost NOK 5 billion in 2006. This is a total of 40 per cent of the Norwegian bilateral aid. Beyond aid, Africa has little significance in the Norwegian economy: imports from Africa account for approximately 1 per cent of total imports to Norway. The value of total import from Africa is somewhat greater than the aid, with NOK 6.6 and 5.3 billion respectively. Correspondingly,

10. Annual Report 2007: Norwegian Bilateral Development Cooperation. Norad May 2008
11. UN, Human Development Report 2007/2008 statistics http://hdr.undp.org/en/statistics/data/

Table 3.1 Indicators for the 10 largest recipients of Norwegian bilateral aid in 2007

	Norwegian aid (NOK mill.)	Human development (1=highest, 177=lowest)	Extreme income poverty (% below 1 $ per day)	Income poor (% below 2 $ per day)	Governance (1=best 212=weakest)
Sudan	701	147 (medium)	..[1]	..[1]	193
Tanzania	670	159 (low)	57.8	89.9	123
Palestine	622	106 (medium)	..[1]	..[1]	176
Afghanistan	553	..[1] (low)	..[1]	..[1]	201
Peru	553	87 (medium)	10.5	30.6	..[1]
Mozambique	412	172 (low)	36.2	74.1	120
Philippines	463	90 (medium)	14.8	43.0	..[1]
Zambia	436	165 (low)	63.8	87.2	138
Uganda	409	154 (medium)	..[1]	..[1]	143
Malawi	321	164 (low)	20.8	62.9	139

[1] Data not available.

Sources: Norwegian aid: Norad; Human development: Human Development Index from Human Development Report (HDR) 2007/08; Income poverty HDR 2007/08; Weak governance: World Governance Indicators 2007 (World Bank). The figure in the tables refers to the country's average ranking of 6 indicators.

only a small fraction of Norway's direct investments in operations in other countries goes to Africa, but the amount is nevertheless far higher than the aid. The Norwegian investments in Africa are almost exclusively within oil production, and are dominated by StatoilHydro. This illustrates how marginal the scope of the aid is in relation to other resource flows to developing countries. World aid accounts for a fifth of a percent of the world's GDP.

Aid is not a main topic in this report. A number of processes are currently focused on how the aid contributes to development and combating poverty. The main process is the monitoring and evaluation of the implementation of the Paris declaration on effective aid, which deals with how the donors coordinate their programmes between themselves and how they adapt the programmes to the recipient countries' needs and plans. Other processes look at how aid can be used to counteract corruption and not result in more corruption. Further processes seek to get the donors to increase their aid in line with promises made by

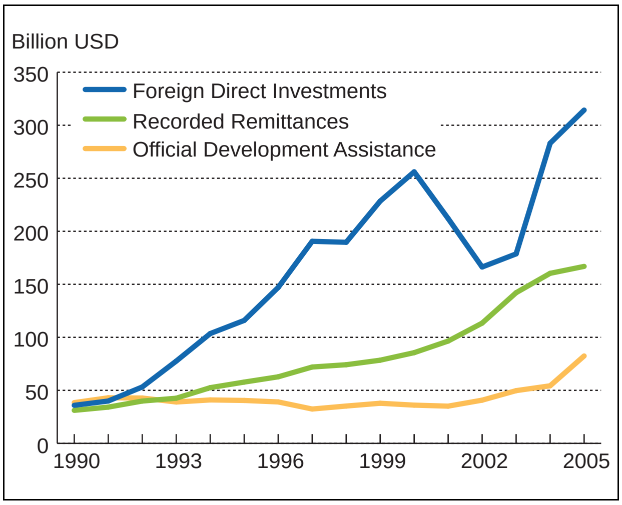


Figure 3.4 Financial flows to developing countries. 1990–2005. USD billion

Source: World Bank, UNCTAD and OECD.

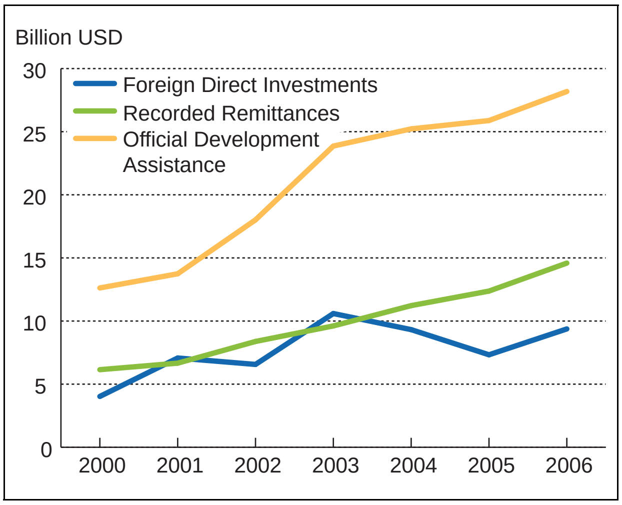


Figure 3.5 Financial flows to the least developed countries. 2000–2006. USD billion

Source: World Bank, UNCTAD and OECD.

the G8 and at various summits. Aid, however, is discussed where relevant.

3.4 Coherent policies for development in an international perspective

The acknowledgement that a number of other policy areas have a greater significance for the fight against poverty in developing countries than the aid policy, formed the basis for the UN member countries at the start of the new millennium endorsing Millennium Development Goals 7 and 8 on national responsibility for global, sustainable development and global partnership for development. Goal number 8 emphasises the development of transparent, rule-based, predictable and non-discriminating international trade and finance systems, debt relief and increased aid to countries that adopt binding policies on reducing poverty. Securing access for developing countries to relevant technology, particularly within medicine and information and communication technology is also covered. Goal number 7 focuses on reducing greenhouse gas emissions. The fact that all UN member countries supported these goals confirms the extent of agreement that rich countries have a special responsibility to change their own policies as well as the policies of international organisations aimed at combating poverty. However, there are major differences regarding how countries and organisations follow up these goals and the ideal for a coherent policy on development.

Policy Coherence for Development has been a core area for *OECD/DAC* for a number of decades. OECD also has the following definition of Policy Coherence for Development:

> *Policy Coherence for Development (PCD) means working to ensure that the objectives and results of a Government's development policies are not undermined by other policies of that Government, which impact on developing countries, and that these other policies support development objectives, where feasible.*

The definition implies that national authorities should also identify and utilise any synergies between the development policy and other policy areas. OECD has identified agriculture, trade, investments, knowledge and technology exchanges, including medical research, migration, the environment, security and arms trading as the areas in which the OECD countries' policies can potentially have the greatest significance for combating poverty in the developing countries[12]. In this report, the Policy Coherence Commission relies on the OECD's definition and also covers most of the topics that the OECD identifies as key areas.

Box 3.3 Coherent policy for development viewed from the global south

«The policy coherence argument tries to advocate for taking into consideration the interests of developing countries in policymaking. However, as many critiques have noted, coherence has always been and will continue to be a function of competing and conflicting interests and values. Unless donor countries become more ethical and realise that they cannot continue building their progress on the retrogression of other countries, policy coherence will take long to become a reality.»

Pamela K Mbabazi
Dean, Faculty of Development Studies, MbararaUniversity, Uganda

«I would say that there are really *two sources of incoherence* in the developed industrialised countries' attempts to address issues of development and poverty in the countries of the South.

1. Incoherence arising out of *conceptual* (mis)understanding of development; and
2. Incoherence arising out of *practice at variance with* stated «development» policy *objectives* and means to development set out by OECD countries.»

Yash Tandon,
Executive Director, The South Centre

In 2003, *Sweden* was the first country in the world to pass a law for a policy on how, within all policy areas, to work towards a common goal for global development, i.e. with a focus on both global public goods in general and on a coherent policy for development. Annual reports on this are submitted to the Swedish parliament[13]. In Sweden, as well as combating poverty, global development also includes the improvement of human rights

12. ECD: The DAC Guidelines. Poverty Reduction 2001. http://www.oecd.org/dataoecd/47/14/2672735.pdf og OECD, Policy coherence: Vital for global development. Policy brief, July 2003. http://www.oecd.org/dataoecd/1/50/8879954.pdf.

and democracy, as well as environmental sustainability and equality. Particular emphasis is placed on developing a coherent environmental, trade, agricultural, immigration and security policy in Sweden. Sweden has gained distinction as a leading force in attempts to reduce sugar production in the EU, in order to enable developing countries to secure a stronger market position[14].

The authorities in the *Netherlands, Finland and the UK* are also working systematically to develop a more coherent policy for development. The Netherlands prioritises the policy areas of agriculture, trade, intellectual property rights and public health, product standards, fishery, the climate and energy, migration, as well as peace and security. Among other things, the Netherlands has endeavoured to reduce the EU's subsidising of cotton production because this contributes to low world market prices for a key export product from developing countries[15]. The UK Government has attached importance to trade, migration, research/technology, the international financial institutions, British foreign investments and environmental and security policies[16]. In 2006, the British parliament passed a law that requires the cabinet minister for international development to report to them annually on how other departments' policies obstruct or facilitate the reduction of poverty and development.

EU member countries undertook in 2005 to ensure that the EU policy in its entirety contributes to achieving development policy goals. In addition to aid, the EU has also identified 11 policy areas with special significance for the developing countries: trade, the environment, security, agriculture, fishery, working conditions, migration, research and innovation, the information society, transport and energy[17]. However, a study has shown that the EU is faced with a major challenge since its processes for case preparation mean that various policy areas are partly handled in isolation from each other. There is therefore an extra challenge for the EU bodies to establish systems that facilitate the fulfilment of the obligations for achieving a coherent policy for development[18].

In Norway in 2004, the Government launched a number of initiatives for strengthening policy coherence for development in its White Paper no. 35 (2003–2004) «Fighting poverty together». The report has a separate chapter on partnerships for development, which draws attention to the following policy areas: trade, investment, debt relief, migration, the environment, knowledge and technology exchange, combating corruption and money laundering, a decision-making role in international fora and financing of aid and global public goods. Norway has made progress in some of these areas, but as this report outlines, is lagging behind in other areas. However, Norway has made a considerable effort within global health and can also take credit for launching a major international campaign to save rain forests and to follow this up with a substantial multi-annual grant.

3.5 Division of power and influence

Norwegian policies that affect development in poor countries and the potential for more coherent policies are affected by the international division of power and states', organisations' and individuals' willingness and ability to affect and change this in favour of the poor.

The competition for natural resources, forming alliances, military influence, economic development and the tug-of-war between political and religious ideas affects the combat against poverty. The USA is still the dominating superpower, but Europe has become more coordinated through the European Union. Simultaneous to this, growing economies, such as China, Russia, Brazil and India are showing their desire for greater international influence. Hitherto, the least developed countries and the poorest populations have had very limited

13. Swedish Government: Sweden's policy for global development. Regeringens proposition 2002/03:122 http://www.regeringen.se/content/1/c4/07/73/874fe3e0.pdf. More information on Sweden's coherence policy to be found at http://www.regeringen.se/sb/d/2355;jsessionid=a0tAimr_6Bma
14. Sweden's policy for global development. Regeringens skrivelse 2005/06:204 http://www.regeringen.se/content/1/c6/06/44/04/420a32ec.pdf
15. Dutch Ministry of Foreign Affairs (2006): Policy coherence for development. Progress Report. Ministry of Foreign Affairs, The Hague June 2006. See also http://www.minbuza.nl/en/developmentcooperation/Themes/poverty,coherence/policy_coherence_for_development.html
16. DFID Annual Report 2007: Development on the Record. Department for International Development. http://www.dfid.gov.uk/pubs/files/departmental-report/2007/
17. EU Commission: Communication from the Commission to the Council, the European Parliament and the European Economic and Social Committee of 12 April 2005 - Policy Coherence for Development – Accelerating progress towards attaining the Millennium Development Goals (COM(2005) 134) http://europa.eu/scadplus/leg/en/lvb/r12534.htm
18. van Schaik, Louise, Michael Kaeding, Alan Hudson, Jorge Núñez Ferrer, Christian Egenhofer (2006): Policy Coherence for Development in the EU Council: Strategies for the Way Forward. Centre For European Policy Studies Brussels shop.ceps.be/downfree.php?item_id=1356.

power and influence, including in the UN and other international organisations.

A number of Asian countries that have achieved high economic growth and made good progress in the fight against poverty have substantial challenges regarding human rights and the deterioration of the climate. The magnitude of the emissions from energy production and the manufacturing sector in these countries make initiating a binding dialogue with them on emission reductions a main challenge. The limited effort in many western countries to curb climate change coupled with Asian countries' desire to grow quickly, which leads to a major need for resources, is however a barrier.

How this will eventually manifest itself in global power politics is unclear. The dynamic in the development in Asia has been seen in the increased competition for resources – e.g. in Africa, where China in particular is active. All of the so-called BRICS countries (Brazil, Russia, India, China and South Africa) have experienced substantial economic growth in recent years. In time this economic power may translate into political power, with an accompanying shift of power from west to east/south. The fact that China offers developing countries in Africa economic trade that is not tied up with political conditions is an important premise for the further development of the global economic system in which developing countries have to operate. If the international community is to succeed in creating a common development strategy, these new weighty players must also be included in the dialogue on framework conditions for aid and development policies.

The BRICS countries have all played a key role in the ongoing Doha round in the WTO through leadership by facing the developing countries' requirements for policy space and greater market access. The term «policy space» has been defined by the UNCTAD as «room for potential within domestic politics, particularly in the fields of trade, investment and business development within international rules, obligations and global market considerations». This bears the message that the BRICS countries will play a more prominent role in key political fora in the future. It is interesting to note that a number of leading countries, e.g. the UK, are taking on board that the BRICS countries should have a larger role in central international organisations such as the UN, WTO, IMF and the World Bank. IMF's director has also stated that a redistribution of rights and obligations that reflect the current economic dimensions is necessary in order to protect the legitimacy of the IMF. Various intersecting interests among developing countries make it important, however, to ensure that the changes in the global economic and political power structures also contribute to policies that are more coherent with the poorest countries' development goals.

Governments, however, do not have a monopoly on power and influence, with non-government players gradually having gained more power in international politics. These often contribute funding, expertise and a capacity for mobilisation, which are absolutely vital to establishing bodies for global governance. The human rights movement, trade union movement and the green/environment movement are examples of such critical networks in international politics. Also included in this group are large foundations that finance various causes in developing countries, such as the Gates Foundation, and labour organisations. Combined analysis and pressure groups, such as the International Crisis Group, are also key players.

Multinational companies are also playing an increasingly greater role. This often has a major effect on the national economies in which they operate and, by virtue of their size and scope, also have considerable influence globally. The three largest companies in the world, Wal-Mart, Exxon Mobil and Royal Dutch Shell had a total turnover of USD 1,017 billion in 2006. This surpasses the gross national product for the whole of Africa south of the Sahara (which was USD 713 billion). The largest company in terms of turnover, Wal-Mart, has a turnover of USD 351 billion which is almost as high as all of the least developed countries put together (USD 367 billion). Human rights and climate considerations need to be protected through the companies' own rules for social responsibility and through the national and international framework conditions for industry in the countries in which they operate. The latter is also of great significance for the distribution of the growth that the companies help to create.

This increased diversity and the changes in power and influence challenge the existing global model of Government. It has also led to the formation of fora such as the World Economic Forum in Davos, where new players and representatives for national states and global organisations meet to discuss key global issues and subsequently draw on them in the UN, OECD and in board discussions in the international financial institutions. The process has also shown bodies such as the OECD/DAC that they need to identify new ways of working in order to take account of players with a major influence on their work.

3.6 Measuring a coherent policy for development

Measuring how coherent the overall politics in a country are with regard to facilitating development is extremely difficult. In practice, such assessments would need to be based on recognised causal relations. This would be relatively non-controversial in some areas, particularly where there is general agreement within research on which type of policies actually help to reduce poverty. In areas where there are widely differing opinions among researchers as to what the causal links are conclusions would be difficult to draw. It will therefore be difficult in many areas to draw definitive conclusions in the assessment of the coherence for development of Norwegian policies.

In some countries Governments have made statutory provisions for the reporting of coherence. In the EU, the reporting of the Millennium Development Goals must include an assessment on development related coherence. In 2007, the EU Commission published a self-evaluation of the policy coherence for development in the EU's and the member countries' policies[19]. The development authorities in Sweden and the UK report annually to the national assembly on the coherence within the entire scope of the Government's policies. Such reporting also takes place in the Netherlands. In Norway, the Ministry of Foreign Affairs' reporting on Millennium Development Goal number 8 in 2004[20] has so far been a one off.

It is unlikely that a national authority's self-evaluation can provide a critical and explicit assessment of policies. It is more likely to expect it to be characterised by initiatives that can have a positive bearing on the developing countries, with negative development characteristics in their policy being undercommunicated.

External evaluations are therefore important. An example of such an evaluation is the EU coherence project, which is financed by the Dutch Government and some voluntary organisations in the Netherlands. They carry out regular analyses of the coherence between selected areas of the EU's policies, such as agriculture (sugar and cotton), fisheries (the EU fleet's haul in developing countries' waters), health (patents on medicines and trade) and arms trading,[21] and are a key premise provider both in the national debate and within the EU.

The most well-known attempt at creating an overall measurement of how rich countries' policies affect the poor in developing countries, is the Commitment to Development Index (CDI). The index is made up of measurements of the policy within six areas with a major bearing on the reduction of poverty: aid, trade, investment, migration, environment, security and technology[22]. In 2007, Norway was ranked third out of 21 rich countries, after the Netherlands and Denmark. Norway had the highest score of all countries with regard to security policy and the environment. Norway's major contribution of personnel and funding to international peace-keeping and humanitarian interventions has earned us a high number of points, as has the low emission of greenhouse gas per capita (emissions from petroleum recovery on the Norwegian continental shelf are not included) and the reductions we achieved between 1995 and 2005. Norway is in fourth place with regard to aid due to large allocations in relation to the country's revenues, and is sixth within investment policy due to measures to support Norwegian investments in developing countries. Norway scores above average on technology, and average on migration. Norway scores second lowest out of the 21 countries on trade due to the considerable trade barriers (duties and subsidies) on agricultural products.

The CDI's methodology for considering whether the policy is coherent is the subject of much debate. Data, criteria and the measuring methods are all debatable, e.g. there is no consideration given to the fact that around 25 per cent of imports to Norway are exempt from duty. There is also political disagreement on some of the assessments that lie behind the index, e.g. the ranking with regard to contributions to global security. The index and its 6 sub-indices, however, provide an interesting profile of changes in the OECD countries' policies over time.

In Norway, The organisation «The future in our hands» has developed a type of measurement for coherence through calculating the indicator «the i-help», i meaning industrialised country, where an attempt is made to quantify the benefits Norway has from the economic imbalance between rich

19. EU Report on Policy Coherence for Development. European Commission, DE 139, November 2007 (Commission Working Paper COM(2007) 545 final og Commission Staff Working Paper SEC(2007) 1202). http://ec.europa.eu/development/icenter/repository/Publication_Coherence_DEF_en.pdf.
20. Global Partnerships for Development. Millennium Development Goal No 8. Progress Report by Norway 2004, http://www.regjeringen.no/upload/kilde/ud/rap/2004/0217/ddd/pdfv/225797-mdg8-rapport.pdf
21. www.eucoherence.org
22. Center for Global Development 2007. http://www.cgdev.org/section/initiatives/_active/cdi/

and poor countries. This is then put up against the aid Norway gives to poor countries. According to The Future in our hands, Norway received NOK 28 billion from developing countries in 2005, which is 62 per cent more than the amount given in aid to developing countries that year. This is based on industrialised countries' advantage in the commodity, capital and labour markets, combined with the costs to developing countries of damage to the environment caused by industrialised countries[23]. The i-help, however, only calculates Norway's gains, and not the corresponding loss for the developing countries, which could be considerable in a poverty perspective.

The OECD's checklist for coherence from 2000 is a tool for policy development in the member countries. It lists policy areas that should be considered in relation to coherence[24]. The OECD has also carried out an evaluation of the coherence between the policies in the member countries[25]. With regard to Norway, the study is based on the evaluation (Peer Review) of Norwegian development policy from 1999. At that time the OECD believed there was a relatively strong awareness in Norway of the need to develop a coherent policy aimed at the developing countries. It was particularly noted that Norway had a GSP system that provided favourable market access for selected developing countries, that Norway actively promoted the interests of its main partner countries in international discussions on trade, development and global public goods and that Norwegian aid was to a large extent not tied to the purchase of Norwegian goods and services. The OECD recommended, however, better access to and transparency in relation to policies that are potentially not coherent, particularly within the agriculture sector, in order to enable a more effective evaluation of differences and adaptation costs. The OECD also had a recommendation for the organisation internally in the Ministry of Foreign Affairs and between the ministries to ensure a more coherent policy for development. The OECD's Peer Review of Norwegian development policy from 2004 placed a positive focus on coherence being an explicit aim of this policy, but advocated a stronger foundation for coherence throughout the entire Government.

One of the evaluation areas[26] of an external evaluation of the Norwegian policy on sustainable development was the relationship between trade and aid. The evaluation concluded that the Norwegian policy is not very coherent; it was generous with aid but restrictive in the trade policy. According to the evaluation, this can particularly affect poor countries, except the least developed countries, which have duty-free and quota-free status for export to Norway. The evaluation panel recommended a clarification be made of the consequences for Norwegian districts and Norwegian consumers of introducing a more liberal trade policy within agriculture and textiles, and to improve official indicators for both trade and aid.

One objection to the existing evaluations of policies in relation to coherence is that they do not properly document the effect that the evaluated policy has in developing countries. Neither do they take into account that developing countries are different and have different interests, and that the effect of the policy will therefore vary from country to country. Thus, there is a need for greater knowledge on how Norway's and other rich countries' policies affect developing countries.

3.7 Consequences of how the policy is formulated and recommendations

The Norwegian authorities have a duty to help fight poverty in developing countries. Although Norway is a small country, Norwegian policies have an effect on the developing countries through both national policies and participation in international processes and organisations. The fact that the political willingness or ability in a number of developing countries hinders the reduction of poverty, is not permissible as a general argument against giving these countries resources or removing obstacles in the fight against poverty that the developing countries run into.

The Policy Coherence Commission's mandate is based on a goal to *minimise* the negative effects of Norwegian policies on developing countries, and *strengthen* the positive effects. The mandate thereby places a great deal of emphasis on identify-

23. The Future in our hands: I-hjelpen 2006. Om de fattiges bistand til de rike. Rapport 4/2006. Framtiden i våre hender http://www.framtiden.no/filer/R200604_Ihjelpen_2006.pdf
24. OECD (2001): The DAC Guidelines. Poverty Reduction. OECD http://www.oecd.org/dataoecd/47/14/2672735.pdf
25. OECD (2004): Extracts From The Development Co-Operation Review Series Concerning Policy Coherence http://www.oecd.org/dataoecd/23/16/25497010.pdf
26. Danielson, Anders, Conny Hägg, Helene Lindahl, Lars Lundberg, Joakim Sonnegård and Joseph Enyimu (2007): A peer review of Norway's policy for sustainable development. *link in English: http://www.regjeringen.no/nb/dep/fin/tema/Barekraftig_utvikling/Sammendrag-fra-peer-review-av-barekrafti.html?id=458363

ing and initiating measures within the areas where Norwegian policies contribute to the undermining of the fight against poverty. *Minimising* the negative effects – as opposed to *reducing* them – entails taking as much consideration of the interests of developing countries as possible without harming vital Norwegian interests where these are in direct opposition to each other. In order to fulfil such a wish, Norwegian policies need to be modified within a number of areas. *Strengthening* the positive effects is interpreted as follows: where Norwegian interests coincide with the interests in poor developing countries such synergies shall be utilised. In these cases, the focus will be on strengthening individual elements of existing policies. In some cases, this may entail a win-win situation, but increased focus can also affect other measures due to limited resources.

This report contains a number of proposals for measures to increase the effect on the reduction of poverty and scope for economic and social development within Norwegian policies in areas that we believe to be crucial to improving the framework conditions for development.

Poor populations in developing countries have very limited opportunities to exercise influence. When political decisions are taken in Norway, Norwegian interest groups are first in line. It is a political choice whether and when the interests of the poor are given priority ahead of Norwegian interests. However, it is difficult to legitimise the population and authorities of Norway not having or obtaining knowledge on the consequences for the poor in developing countries of the decisions that are taken. In order to make the authorities responsible, they must regularly document and publish the consequences of decisions made in Norway on the poor in developing countries. The authorities must also consider this knowledge when making decisions. Developing a more coherent policy for development is not a one-off event that an official Commission can carry out. It requires a continuous and systematic effort by the authorities, and the work must be institutionalised. This report includes proposals on how these can be achieved.

Figure 3.6 Producing flowers for sale in Europe has become an important source of income for many countries in Africa.

The Policy Coherence Commission believes that Norwegian policies are nowadays formulated through decision-making structures that are not sufficiently adapted to situations in which the mutual dependency that stretches across country borders affects almost all policy areas. This is problematic in cases where Norwegian political decisions are harmful to or obstruct the developing countries' possibilities for fighting poverty. However, the Commission also believes that problems can arise if the absence of effective institutional mechanisms for increased coherence deprives us of opportunities to create positive synergies between the national policy-making and Norway's foreign and development policy objectives.

For example, the Ministry of Labour and Social Inclusion has responsibility for the immigration and integration policy. A key tool for a coherent policy for development in the area of migration and remittances is therefore outside the scope of responsibility of the Ministry of Foreign Affairs and points towards a need for extensive coordination across the various ministries. The Ministry of Agriculture and Food has ministerial responsibility for the agriculture policy and the Ministry of Fisheries and Coastal Affairs is responsible for the fisheries policy, while the Ministry of Foreign Affairs is responsible for the actual negotiation process in the WTO. The Ministry of Finance is responsible for Norwegian policy with regard to IMF; a responsibility that is delegated to Norges Bank – the Central Bank of Norway. IMF's key role as financial adviser and donor to poor countries entails challenges for the Government when trying to establish a primary policy that is capable of and takes consideration of each ministry's (including the Ministry of Finance) distinctive perspectives and interests. The Ministry of Finance is also responsible for the Government Pension Fund – Global, which develops and administers economic policy guidelines in relation to investments in developing countries. The Fund has shares to a value of NOK 4.8 billion in companies that the Rainforest Foundation Norway claims damages the rain forest in a number of poor countries,[27] while the Government has established a fund that can spend up to NOK 3 billion per year for five years on saving the rain forest. The tension between Norwegian investments abroad and the effect of these on the environment, and the basis of existence for poor countries is only one example of the bureaucratic and political challenge faced in the coordination efforts between the ministries.

These examples of how different ministries are involved in cases relevant to a coherence in development relevant policies indicate that there is a need for new institutional and political mechanisms in order to ensure coherence. The fact cannot be ignored, for instance, that there are varying interests and elements of territory struggles between the ministries, which partly stems from political tensions, but which can also have bureaucratic origins. This is expressed in various ways, but the core is that there is immense power in Government's control of information, interfaces with key partners abroad and not least budgets. Power is particularly prevalent in the Government's knowledge and expertise within various specialist fields. The Commission notes that knowledge from the global south and competent environments other than the World Bank should be involved in order to create a broad knowledge base. The Ministry of Foreign Affairs is in a special position in this regard, with an assumed leading expertise in diplomatic processes and the primary relationship with other countries. In line with all specialist fields being globalised and «national» political fields gaining a stronger international dimension, however, the various other ministries are also becoming more key players in international fora, often by virtue of extensive specialist expertise, which the Ministry of Foreign Affairs with its broad scope of responsibility cannot be expected to possess. Additionally, the Office of the Prime Minister by virtue of its own international department has gained a more prominent role in Norwegian foreign politics. This changes the Ministry of Foreign Affairs' historical role as a gatekeeper and interface to the outside world.

The fact that many requirements are placed on the coordination between the ministries as a result of an internationalisation of specialist fields is in addition to any political tensions between such political fields with regard to their effect on developing countries. Global changes thereby create pressure to develop more effective coordination and interconnection mechanisms across ministries, not just on the civil service side but also politically. In the USA, the tradition has been to place the responsibility for interconnecting different parts of the security policy in the position of national security adviser. The Netherlands have a separate unit in the Ministry of Foreign Affairs that monitors policy areas of major importance to policy coherence for development both nationally and in the EU. Issues that represent challenges in this field are studied and presented to the Government by the departmental director as part of the decision basis. In Sweden, the Development policy department within the Ministry of Foreign Affairs is organised according to the main lines in the Swedish policy for global development and has a separate unit for policy coherence for development and policy development. The Ministry of Foreign Affairs must by law report annually to parliament on its own and other ministries' contributions to realising the policy for global development.

However, it is not enough just to coordinate the policy across the ministries. Political authorities must also act in accordance with and work with a relatively large number of non-government players. The input value for a specialist field today is that *all implied players* must be identified and dealt with, including Governments, in order to then initiate institutionalised cooperation with as many players as possible. Greater coherence, and administrative handling aimed at strengthening the coherence in relation to developing countries can take inspiration from existing forms of collaboration between the Government and non-government players. That which is often referred to as the Norwegian model, with close – too tight according to some – ties between the Government and representatives of the civilian community and industry can form the basis for establishing better coordination mechanisms between various ministries and between the Government and other players. Trust and transparency are key concepts here. As a small country with a stable political system, an effective bureaucracy and relatively high degree of support for the goal of fighting poverty, Norway is in a better position than many other countries to establish political and organisational mechanisms for a more coherent policy for development. This should not be interpreted as if no conflicts or differences of opinion exist here. Nevertheless, in an administrative and political sense, Norway is in a good position to be able to develop new mechanisms for creating debate, ensuring an overview and supervision, and coordinating a more coherent Norwegian policy aimed at countries in the global south.

Commission member Kristian Norheim believes that aid should have been included as a main topic in the Commission's work and report,

27. http://www.regnskog.no/html/562.htm

and in relation to the coherence issue. Any analysis of coherence for development in Norwegian policies will be lacking where it has been decided to exclude an evaluation of what role the Norwegian aid effort plays and not least a critical assessment of whether the aid policy actually builds on the goals for a global reduction of poverty and better framework conditions for economic growth and development in the poorest countries. Aid is one of many tools in the development policy, and in Norway one of the most important. It is Kristian Norheim's clear view that the report by the Policy Coherence Commission will remain inadequate as long as aid is excluded in a broad sense from the work of the Commission. Where it is the case that aid can not only produce good results, but also lead to poor results, and even worse to a deterioration of the conditions for growth and development in the poorest countries, an analysis of these conditions should be included as a natural part of a Norwegian coherence policy aimed at the poor countries. Good intentions can give poor results, and where certain parts of the traditional aid policy contribute to the undermining of the effort in the developing countries in relation to fighting corruption and the necessary economic and political reforms, this must be viewed in context in order to be able to make Norwegian development policy more coherent.

The Commission recommends that the Government considers institutional reforms that can strengthen the political and administrative capacity to develop a more coherent policy for development.

1. The Commission recommends that the Government strengthens the reporting to the Storting, both with regard to results and ambitions for a more coherent policy for development.
   a) The ambitions for a more coherent policy for development should be expressed through the Government's long-term programme, preferably with a separate chapter being dedicated to presenting the Government's most important priorities in this area for the coming parliamentary session.
   b) Correspondingly, Norway should follow the example of the UK and other European countries and introduce regular reporting to the Storting on the overall effects and results of Norwegian policy in relation to the development policy goals. Reports should be submitted at least once per parliamentary session.
2. Weighty decision-making processes are, to an increasing extent, involving more ministries. At a political level, this is handled through the Government collegiate, while at civil service level it is the content of issues that determine on a case by case basis where the administrative responsibility lies. The Commission understands the benefits of the ministry that is closest to the issue having the main responsibility for preparing the issues for political processing. Nevertheless, the Commission believes that there is a need to develop collective administrative expertise with resources and a mandate to protect the needs for a more coherent foreign and development policy, based on the policy in all relevant ministries. A resource of this type should be developed and given a mandate in order to ensure better coordination of political decisions with a special bearing on increased coherence.
   a) The Commission recommends that the Government strengthens the civil service's capacity for a collective preparation of political decisions across the traditional borders of the ministries. As is the case in Sweden and the Netherlands, Norway should establish a unit in the Ministry of Foreign Affairs, which is given the task of both monitoring relevant policy areas and coordinating the work aimed at a coherent policy for development.
3. The Commission recommends that the Government enables greater knowledge in this field through a more systematic evaluation and analysis of the collective Norwegian presence in developing countries. The Policy Coherence Commission believes it is important that a contribution is made to both developing and exploiting different research environments in developing countries.
   a) A regular and independent evaluation of a coherent policy for development should be ensured at a superior level. This should be commissioned to various research centres, including in developing countries.
   b) The Commission believes there is a need for greater knowledge on how the collective Norwegian presence affects developing countries' ability and willingness to reduce poverty and encourage development. The Commission therefore recommends that concrete case studies are carried out in selected countries on the effect of all aspects of Norwegian policies. The Commission is of the opinion that it will be beneficial if strong expert environments in the global south help to develop such studies.

c) A board or liaison Commission should be appointed consisting of representatives from industry, the trade union movement, research and the civil community, among others, in order to ensure a broad basis for a debate on a coherent policy for development.

Chapter 4
Trade

4.1 The significance of trade on poverty reduction and development

Trade is fundamental and vital to improving human living conditions. A prerequisite for being able to trade is having something to sell. What is being traded and how it is traded are therefore crucial. Many poor developing countries nowadays have mainly raw materials to offer, which puts them in an unfavourable position in terms of trade. Raw material prices in world markets have been relatively low, while the finished goods they have had to import have been much more expensive in relative terms. A long-term development strategy is therefore dependent on the developing countries' production of finished goods and services being strengthened in order to improve trade conditions and thereby the balance of trade.

Recent decades have been characterised by an increase in the trade of goods and services and a more integrated global economy. This has contributed to an economic recovery and new jobs in many countries, including South Korea, India, China, Indonesia and Malaysia. China has had the most impressive development and has released more than 400 million people from extreme poverty in the last 20 years. China is one of the countries to have introduced its reforms gradually, to have phased them in according to national priorities and which due to low production costs has achieved an amazing increase in the export where the revenues have been ploughed back into the economy in order to create further growth. China has succeeded in reaping the rewards from increased market access and exports, by combining this with controlling their own economy and a national industrial policy. China has a large national market and the increased purchasing power among the Chinese has developed this market. However, growing inequality and social unrest have also been an important part of the development in China in the past two decades.

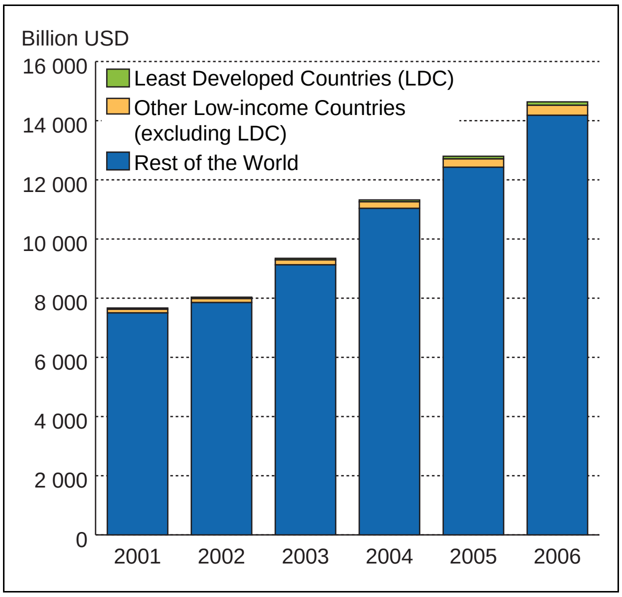


Figure 4.1 The world and poor countries' export of goods and services 2001–2006

Source: World Development Indicators 2007.

Some of the world's poorest countries, especially in Africa, have so far been excluded from the growth in the international economy and trade. Many African countries are now experiencing considerable economic growth. Africa, south of the Sahara, has seen an average growth of around 6 per cent in recent years. Simultaneous to this, the national markets in many African countries are small and marked by low household incomes and considerable poverty. The Growth and Development Commission, which recently presented its report,[1] therefore recommends active use of trade preferences in order to contribute to this growth resulting in long-term value creation and development.

Considerations of the Commission

The Commission with the exeption of Kristian Norheim holds the view that participation in international trade is an indication of a country with capacity for value creation, employment and to finance welfare for its own population. The Norwegian

1. www.growthcommission.org/storage/cgdev/documents/Report/GrowthReportfull.pdf

society developed by combining trade and market mechanisms with a strong welfare state and the public control of parts of the economy, and through the fiscal policy, putting the surplus that is produced towards new investments and distribution of merit goods. With regard to trade, the «Norwegian model» has also been characterised by the protection of agriculture – through quotas and high duties on the import of many agricultural products – in addition to various forms of subsidies linked to the operation and sale of the industry's products. This combination of a controlled market economy and selective protection has been a key element in the development for today's industrialised countries.

Julie Christiansen and Kristian Norheim do not share the Commission's view of the «Norwegian Model» as a desirable template for other countries. The common Norwegian experience is that free trade and free markets have led to considerable economic growth and that it is extremely demanding to use public regulations, including tax policies in guiding society's resources in ways that promote growth and distribution. In particular the experience is that active use of tax policies could easily be counter productive, that tax policies are not particularly suited for active management of investment and production. A better option would be to secure the income for society through low tax rates and a broad base for taxation. Regarding trade the Norwegian variety of the Nordic model has been characterized by protection of a range of industries. As more and more industries have lost their protection it turns out that such protection has hindered development rather than advancing it. One effect from these Norwegian policies has been to encourage industries that should have restructured to instead invest disproportionally large resources in trying to achieve political protection. Christiansen and Norheim are of the opinion that selective protection has not been a beneficial element in the development of the industrial countries of today.

The Commission, with the exception of Kristian Norheim,holds that the controversy in international trade policy is about the world's Governments pursuing different national interests, the fact that there is a fundamental imbalance in power and economic strength between rich and poor countries, and weaknesses in the international system of agreements for international trade. A joint Commission believes that there is a need for a better balance in the international trade regulations between national interests and the goals the international society have jointly set for the development policy.

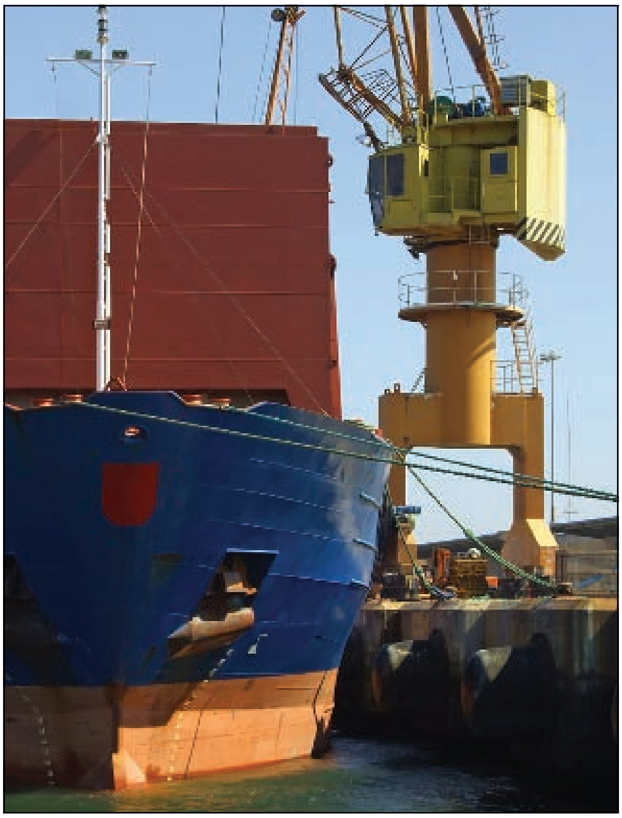


Figure 4.2 World trade is growing. Shipping is important for the transport of goods.

Developing countries' requirements for greater market access and policy space for the protection of agriculture and growing industrial and service sectors are a central part of the international trade debate. Rich countries' protection of their agriculture markets by means of subsidies, quotas, duties and stringent health-related phytosanitary provisions, are currently preventing the developing countries from selling their products to their full potential. The hiatus in the WTO negotiations in the summer of 2008 is owing to a conflict between mainly The USA and India over developing countries' protection of markets for agricultural products. This shows the importance of acceptance of the recognition of developing countries' needs for both market access and policy space in the form of protection mechanisms. The Commission with the exception of Kristian Norheim is united on the assessment that there is a need for such special and differentiated treatment[2] for the developing

2. Special and differentiated treatment is defined as special measures and exemptions for developing countries or the least developed countries that do not have a counterparty in similar measures or exemptions in industrialised countries. These consist of fixed period exemptions from rules, targetted market access, policy space for development policy etc.

countries. The united Commission recommends that Norway continues to base its joining bilateral and regional trade agreements on the asymmetry principle. However, the Commission is divided on its view on how extensive and permanent such agreements for special treatment should be.

Poor developing countries now have their comparative advantage in the commodities sector, and can be left behind in a primary goods producer trap. Economic history shows that a position as a one-sided exporter of commodities in the international exchange of goods keeps countries in poverty, while industrialisation and the export of processed goods creates vital positive spin-off effects[3]. The Commission with the exception of Kristian Norheim believes therefore that a coherent Norwegian policy for development must prioritise contributions that give developing countries increased capacity to further develop their own industry.

The trading of foodstuff is in a unique position, despite only 10 per cent of the world's food production cross a country border before being consumed. The World Development Report (WDR) 2008 shows that when the GDP in a developing country increases through growth in the agriculture sector, poverty is reduced at least twice as effectively as when the GDP increases due to growth in other sectors. The agriculture sector has, however, not only a special potential for reducing poverty, but also for creating economic growth in other sectors through the surplus and demand for other products that are created. Simultaneous to this, the one-sided export of agricultural raw materials is not a good strategy for promoting long-term increased growth and development. As foodstuffs have a major bearing on life and health, the issue of trade in connection with food is widely discussed.

The current high level of pressure in the food market generates major challenges for the world's food production. The prices have continued to increase in 2008 and the majority of analyses indicate high foodstuff prices at least until 2015. However, it is important to take into consideration that the food prices before the most recent price growth have been at an unnaturally low level. A large part of the price increase is also due to increased prices of input factors such as energy and fertilizer. Although increased prices will be favourable for many of the poor who subsist on farming (given that it is these groups that benefit from the increased prices), calculations by the World Bank show that as many as 100 million people for whom these products are their most important source of nutrition, are in danger of experiencing more poverty for the same reason.

With the exception of Kristian Norheim and Julie Christiansen, the Commission believes that in a long-term development perspective, increased production capacity in general, more productive farming with a higher degree of processing, industrialisation and strengthened service production will be vital to the developing countries' potential to benefit from trade as a development policy instrument. International, regional and bilateral trade regulations must therefore ensure market access and policy space for the developing countries to develop production capacity and through an active business and employment policy execute such adaptation processes. International trade regulations must also counter the trend for marginalising the poorest and weakest countries in the world by means of positive discrimination.

Commission members Anne K. Grimsrud, Hildegunn Gjengedal, Lars Haltbrekken and Linn Herning believe that in order to meet the increased demand for food there is a need to increase the production considerably. All countries must take responsibility and utilise their potential. Climate changes can make previous farmlands unsuitable for food production, and increased demand for bioenergy in the world market can outstrip the poor's need for food. Additionally, consideration to climate changes and transport needs will make the global market less suitable as an arena for a reasonable distribution of foodstuff. The requirement for sustainable resource use and management of top soil and freshwater means that industrialisation and traditional intensification of the food production also have their limitations. The Commission believes therefore a much greater offensive must be pursued both bilaterally and multilaterally for the support to local producers of food and investments in order to increase the food production in poor countries.

The Commission members Hildegunn Gjengedal, Lars Haltbrekken and Anne Grimsrud hold that the hiatus in the WTO-negotiations in 2008 illustrate how important it is for developing countries to to protect their agricultural industry. India's minister of trade said after the breakdown that developing countries cannot allow their subsistence farmers to lose their livelihood security and food security to provide market access to agricultural products from developed countries».

Commission members Kristian Norheim and Julie Christiansen believe that the liberalisation within international trade and the more predictable

3. Erik S. Reinert (2005): Global economy, Spartacus

framework conditions that the WTO contributes to, have increased the productivity and technology exchanges between countries. Increased competition between companies has led to reduced prices and a greater choice of goods and services, as well as increased purchasing power, which benefits the consumers. World demand – including for the goods produced by developing countries – will increase and lead to growth that all nations will benefit from.

These members further believe that agricultural policy reforms by the rich countries, but also the developing countries, will be vital in order to achieve a global improvement for the world's poor. In a development policy perspective, Norway should lead the way for a confrontation with the protectionist trade policy that exists in relation to agricultural products from developing countries. In fora such as the WTO, Norway should be a driving force in the liberalisation of trade in agricultural products through working to remove tariff barriers and direct and indirect subsidies of agricultural products. Liberalisation of the food trade will benefit Norwegian consumers, but it will especially benefit the poor, not least the poorest. In the report «Trade for development» (2006), compiled by the Task Force for Trade for the UN's millennium project, it clearly states the importance of the developing countries also liberalising their agricultural sector and opening up their economy and markets to competition and external investment. According to the report, the OECD countries' liberalisation and breaking down of tariff barriers will make a positive contribution to the poor countries, but the greatest gain for the poor will actually be achieved through liberalising the agriculture sector in the poorest countries themselves. A protectionist agriculture policy in the poor countries does not service the masses in these countries. Norway should not put itself in the breach for positions in the WTO that are aimed at supporting individual developing countries' resistance to opening their own markets and internal agricultural reform in relation to the subsidy regime and tariff regime. Protectionism combined with bureaucracy and poor infrastructure is the hallmark of many developing countries today. National agricultural protectionism is not the solution, but the actual problem in, for instance, Africa. More than 70 % of the world's tariff barriers are introduced in the actual developing countries in order to affect the trade with other developing countries. Joachim Braun, the Director General at the International Food Policy Research Institute refers to this as a «starve your neighbour» policy. Norway cannot support such a policy, even although it goes under the guise of falling under the developing countries' «policy space».

4.2 International trade regulations

Establishing the WTO helped to strengthen the multilateral agreement regime for trade. The WTO agreement is underpinned by three pillars: the system of agreements, the dispute resolutions and the negotiation institute. The system of agreements covers three fundamental obligations: the principle of most-favoured conditions (ensures equal treatment between imported goods/services and nationally-produced goods/services) and the principle of binding obligations (ensures that obligations undertaken cannot be changed other than by negotiation).

In 2001, one year after the world's heads of state had given their endorsement to the UN's Millennium Development Goals, and after several previous attempts, the first round of negotiations was initiated since the start-up of the WTO. The Doha round is also referred to as the «development round», and builds on an acknowledgement that many of the poorest developing countries do not currently take part in the welfare and prosperity boost that trade can contribute to.

The three most prominent negotiation topics are agriculture, industrial products (including fish and other natural resources) and services. Norway has clear trade policy interests in the WTO negotiations. On the one hand, defensive interests: «...a new agreement shall provide us with latitude to carry out a national agricultural policy that makes it possible to keep the agriculture active throughout the country»[4]. On the other hand there are offensive business interests within the service negotiations and the negotiations on industrial products, including fish.

The ministerial declaration from Doha in 2001[5] defines three criteria for development in the WTO negotiations.

1. Increased market access of interest for the developing countries
2. Balanced rules that give the developing countries policy space to implement development policy resolutions adapted to their needs and stages of development

4. Støre 12.02.2008 ref http://www.regjeringen.no/nb/dep/ud/dep/Utenriksminister_Jonas_Gahr_Store/taler_artikler/2008/Ukorrekt-gjengitt-i-Nationen.html?id=500656
5. Doha Ministerial Declaration, Adopted by the Doha Ministerial Conference on 14 November 2001, www.wto.org

3. Programmes for technical aid and assistance.

The international trade regulations have always recognised the beneficial handling of developing countries. Requirements for more beneficial treatment have been proposed since the beginning of the WTO negotiations. When political leaders from 132 countries in the global south gathered at the second South Summit in June 2005 in Doha, they formulated clear requirements for strengthening policy space:

> «We must emphasise the necessity for international rules that provide policy space and flexibility for developing countries, since they have a direct effect on the development strategies of national authorities. We also emphasise the necessity of policy space for developing development strategies that take into account national interests and the different requirements of countries that are not always taken into consideration in international trade policy in the process of integrating the global economy.»

The WTO's regulations also provide room for various preferential schemes, such as the Norwegian GSP scheme. The developing countries have also developed in UNCTAD a preferred system between themselves, GSTP, the aim of which is to develop into an international trade agreement between developing countries.

The increasingly extensive trade regulations also mean special challenges for the poorest developing countries in relation to negotiation capacity, rate of implementation and resources to benefit from the dispute resolution mechanisms.

Considerations of the Commission

A binding, rule-based multilateral trade system protects against arbitrariness, unlawful safeguards, dumping and the strongest party's right, and is therefore important to small states as well as poor countries. Robust and balanced international trade regulations can make a positive contribution to growth, development and the reduction of poverty. The current trade regulations, however, still entail challenges in relation to developing countries' opportunities to use trade and trade policy as part of a development strategy.

The Commission believes that a binding set of rules means that all parties relinquish parts of their own policy space in exchange for other countries doing the same. In this way, the members will jointly achieve a result that could not otherwise be achieved if all parties acted in isolation from each other. International collaboration in trade is also concerned with creating collective goods.

With the exception of Kristian Norheim and Julie Christiansen, the Commission believes that the developing countries must be ensured beneficial treatment. Where duty protection and quota protection are founded through the WTO with almost identical obligations for rich and poor countries, the developing countries are deprived of the opportunity to use the same form of protection policy as today's rich countries used in the development of their industrial structure and economy. The main challenges are to find the right balance for the individual countries between protection and transparency – based on the country's own prerequisites. The countries that are most marginalised in international trade have defensive interests to a large extent. Beneficial treatment will be particularly important for these countries.

When considering the marginalisation of the poorest countries, the proposals that these countries have put forward in the negotiations should be especially taken into account, and particularly the least developed countries, African countries and the group of African, Caribbean and Pacific states (the ACP countries). The developing countries, on their own and through various alliances, have expressed their dissatisfaction with the lack of progress in the development topics, which include various forms of beneficial treatment, market access, protection of own markets and trade-oriented aid (Aid for Trade). Given the marginalisation of these proposals, when interpreting the Doha round as a development round, a requirement should be added in relation to the negotiation process, transparency and participation, as this has also been a recurring requirement from the weakest parties in the negotiations.

The greatest challenge in the WTO negotiations, according to the majority of the Commission, is that it is only through expressed and active support for the developing countries' positions that Norway can help to change the negotiation result in the developing countries' favour.

On the developing countries' part, criticism has been aimed at the unpredictability of the preferential schemes. The countries that give preferences are free to change or terminate the schemes. The developing countries are also afraid of losing the preferences when the general duty level falls. They partly contain safety mechanisms that put the schemes out of action when they threaten the market stability in the country that has given the preferences. A key requirement of the developing countries, therefore, is that the preference schemes must be tied to the WTO. This requirement is supported by the Policy Coherence Commission. The Commission believes that the Norwegian preference schemes must also be reviewed with a view to improvements, including the zero duty scheme being tied to the WTO. The Commission also believes that Norway should consider targeted initiatives for supporting increased south to south trade.

4.3 Negotiations on agriculture

During the ministerial conference in Doha in 2001, agreement was reached on binding and clarifying guidelines for the agricultural negotiations, including by specifying the goal for significant improvement in market access, considerable reductions in trade-oriented support and reductions for phasing out export subsidies. Agreement was also reached on taking non-trade-related conditions into account.

Agricultural subsidies in rich countries have been a key part of the WTO negotiations. There is much debate on how trade-oriented the various support schemes are, and on what are genuine export subsidies. UNCTAD is one party that claims that rich countries are to an increasing extent practising «box switching», i.e. the subsidies are maintained but change form, thereby being classified under definitions in the WTO system other than export subsidies. The EU and USA's farming reforms are to an increasing extent based on production-dependent subsidies, and at the same time, the agricultural policy is laying the foundation for a considerable export orientation.

With regard to the Doha negotiations, the industrialised countries have accepted favourable treatment for the developing countries through the Special Safety Mechanism (SSM) and Special Products (SP) schemes. In practice, this means that developing countries based on the SSM can introduce higher duties under specified conditions, and through SP are entitled to lower duty reductions on selected agricultural products than otherwise required. The extent and flexibility of these protection mechanisms are under discussion.

During the WTO's last ministerial meeting in Hong Kong in 2005, agreement was reached on the phasing out of export subsidies before the end of 2013 under certain conditions. There was also agreement that industrialised countries and the developing countries that regard themselves in a position to do so, shall enable duty-free and quota-

Box 4.1 Women and trade

«Women constitute the majority of the poor globally. There are many reasons for this – but what is clear is that no discussion of poverty eradication can be conducted without recognising that gender equality is a prerequisite for poverty eradication. At the Beijing Conference, the human rights of women were recognised for the first time. This constituted recognition that some human rights remain hidden from dominant discourse of the day and need to be highlighted and acted upon. For example, violence against women in the domestic sphere was given new visibility. In similar ways, decent work serves also to give new voice to the excluded – to the recognition of their rights. But it also helps in the practical business of getting people out of poverty. It is not surprising that those key areas which we focus on in the Declaration are most likely to affect poor people – and are areas we have to address in tackling poverty.

Export expansion may have potential benefits in terms of higher growth, increased employment and improved women's welfare. But this calls for an understanding of existing structural inequities, which may undermine rather than enable sustainable human development. Unregulated import liberalisation, for instance, has threatened the livelihood of women working in formerly protected areas of the domestic economy.

Increased food imports and dumping, coupled with increasing prices for farm inputs have left many female food producers worse off than they were in the early 1980s before structural adjustment. Although some rural women farmers who were integrated in village markets have managed to increase their incomes, others have not, particularly those who could not afford to buy modern inputs such as fertiliser. Thus, even when new markets create opportunities, women are slow to take advantage of them, as they often lack access to credit.»

Elizabeth Eilor
Executive Director
African Women's Economic Policy Network (AWPN)

free market access for 97 per cent of the goods from the least developed countries. The full effect of the favourable trade terms will, at the end of the day, first be seen as the least developed countries improve their capacity to produce and export. The least developed countries cannot utilise complete market access initially since the importer countries have the opportunity to exempt three per cent of the tariff lines. The majority of the least developed countries have very limited numbers of export goods, and can be completely excluded from key markets due to the three per cent exemption. The least developed countries therefore want full duty and quota exemption, and for the industrialised countries to bind their duty-free and quota-free schemes in WTO. Norway introduced a zero duty policy and quota-free status for all goods from the least developed countries in 2002. This scheme was extended in 2008 to apply to all low-income countries with a population below 75 million. The zero duty scheme has a safety mechanism that will be activated in the event of major market disturbances in Norway as a result of imports.

Since the negotiations started, Norway has attached importance to the need for national production in order to secure non-trade-related considerations such as regional considerations, food security and protection of cultivated landscapes. The desire has also been emphasised to secure sustainable production through continued policy space in national policy-making. Special emphasis has been placed on the need for import protection.

Considerations of the Commission

Agriculture is particularly important in the short and medium term to many developing countries, particularly the poorest of these. The agricultural sector has major potential for reducing poverty, and many developing countries now have effective conditions for competing on the international market. The increase in international food prices gives a greater incentive to invest in and develop the production capacity in agriculture.

Since developing countries as a group are net agricultural product importers, the production should be radically increased through focus on food production. The Commission with the exception of Kristian Norheim believes that the export focus should mainly be developed through processed farming products in order to increase the spin-off effects and growth potential in the agricultural export. Norway should undertake international efforts in order for developing countries to

Figure 4.3 Trade in agricultural products is an important and controversial issue.

be able to strengthen their agriculture both for national purposes and for export.

Almost all developing countries are committed to reductions in internal support that is disruptive to trade. Both directly and indirectly subsidised exports are the source of a great deal of unreasonableness in how the international trade of agricultural products is regulated. Subsidised export is primarily a tool for rich countries and squeezes agriculture in developing countries out of international trade as well as their own domestic market.

Commission members Hildegunn Gjengedal, Lars Haltbrekken and Anne K Grimsrud believe that all countries must have the right to protect and support the production of food for their own population. It then follows that the developing countries in the WTO negotiations must be permitted to protect and develop their own agriculture, primarily for domestic markets. The national food production is key, both in the south and north. It is crucial that the set of rules in the WTO, which are aimed at regulating the approximately 10 per cent of the food production that ends up on the global market, does not incapacitate the production for local markets. A major focus on agricultural goods export from the poorest countries can affect both food security and the environment, and favour to a greater extent large and more affluent farmers, countries and companies, as opposed to the poorest farmers and countries. There is a particular danger that African women as farmers and food producers could be further marginalized.

These Commission members also want to emphasise that a Norwegian trade policy that prioritises the international reduction of poverty and more fairness between rich and poor countries has been faced with new challenges through increased recognition of global threats to the environment and food shortages. Globalisation of the markets or the most possible free trade of food and biofuels is not the answer, either to these challenges or for bringing the world closer to a sustainable and fairer world. Global food production has increased in line with the increase in population. The food shortage we face today is therefore not primarily a production crisis, but a distribution crisis. As long as we accept power centralisation and power concentration for a global market, we will not have a system that can distribute, regardless of how much production increases. The reason for this is that it is purchasing power that dictates distribution in the market, and money is what the poor don't have. Eighty per cent of the world population currently live in countries in which the disparities are increasing. Local and national markets and ceilings under democratic control can more easily reduce the significance of inequalities in purchasing power. The right to food is one of the most important human rights. Food security is just as important as energy security. With regard to reducing poverty, it is important to ensure national and local ownership and control over the soil, the processing chain and distribution of food, and prevent it getting into the hands of multi-national companies and global economic speculators. The agricultural policy in a country has therefore more to do with distribution and the security policy than with the trade and industry policy. In international fora such as the WTO and the World Bank/IMF, Norway should support poor countries' rights to develop food security for their own population. Unfortunately, it is these institutions that have a history of leading poor countries to believe that it is best for them to produce goods that the world market has a need for, and then to import food to its own population, in line with the free trade theory. However, the reality is increased vulnerability, lack of food and social and political unrest. Many of the poorest countries have now become net importers of food. It is time to adapt the theory to reality. With limited purchasing power among the poor of the world, it is also more profitable to use top soil and sell farming products to companies that will produce biofuels. Motorists in rich countries are willing to pay more for the product than hungry people with no money. Both food and biofuels would best be produced and distributed through small markets, primarily national and regional. Democratic control of scarce resources and fundamental needs of the population can thereby be secured more easily. Access to enough freshwater can be a bigger problem than food if the climate changes become extensive. It can, for instance, be more fair or sustainable to produce foodstuffs in Norway that require high volumes of water, instead of importing them from countries with a water shortage. Reducing poverty will always be associated with the possibility for covering fundamental needs. If the free trade philosophy is to guide the distribution of fundamental needs, the purchasing power will win and the poor will lose. Global trade regulations will be crucial to goods and services with a surplus, and with which it is natural to trade in order to achieve effective use of resources. A forward-looking set of rules in the WTO does not just lay the foundation for maximised returns through the right to conquer increasingly greater markets with others. In order to be more development-oriented, the WTO needs to safeguard frameworks and provide offers of coaching for poor countries that wish to develop their economy through domestic production and employment, in order to achieve «contest weight» so they can compete on more equal terms with others in the same «weight class». Boxing matches between «featherweight» and «heavyweight» can never be fair. Trade is an instrument, not a goal in itself, and the set of rules in the WTO must therefore be adapted to general considerations in the international community, such as the climate, fair distribution and the fight against poverty.

Commission members Kristian Norheim and Julie Christiansen point to the fact that the least developed countries account for only 1 per cent of the world trade in farming products – a share that has fallen over time. Farming, however, is a unique instrument for development and reducing poverty in a number of developing countries. Efforts to reduce the obstacles for the developing countries' export of farming products is therefore of great significance to the fight against poverty. Norway should undertake efforts to ensure that the WTO negotiations are resumed as quickly as possible and to reduce trade barriers and enable well-functioning markets. Reducing tariff rates and subsidies within agriculture are particularly important goals. A long-term goal is to remove tariff rates on farming products. Such a policy will give farmers in the developing countries opportunities to sell their products on the global market and their efforts to increase domestic production and productivity will be strengthened. The trading of farming products and foodstuffs between developing countries has increased considerably. Through the WTO, Norway should help to strengthen this development. All forms of export support must be eliminated within the frameworks of the Doha round. Export support in the EU and other countries means a risk of products being disseminated on domestic markets, which particularly affects the developing countries.

4.4 Negotiations on industrial products, fish and natural resources (NAMA)

The NAMA negotiations have four main pillars: tariff rate cuts, linking tariff rates, removal of non-tariff trade barriers, and special protective measures and favourable treatment based on the level of development. It is further proposed that some sectors have complete duty-free status at a global level.

Norway has offensive interests in the NAMA negotiations, primarily in relation to market access for fish and fish products. The EEA agreement gives Norway zero duties to the EU on all industrial products except for fish. Some fish sales have duty relief through the EEA, but there are exceptions for some key fish sales so that general duty reductions through the WTO negotiations can have a major bearing on the Norwegian fish export. The Norwegian interests with regard to developing countries in these negotiations are connected to the major markets for industrial products in Latin America, ASEAN, plus China, Korea, Taiwan, India and Pakistan. Norway has been criticised by the NAMA-11 group[6] for making extensive demands for drastic tariff reductions in these and other countries. This is to a large extent due to the Norwegian negotiation positions within fishery also having far-reaching consequences for tariff protection in other industrial sectors. A number of contingency schemes have been created for various developing countries in the negotiations to date, and the least developed countries group is totally exempt from obligations, but there is extensive disagreement on whether the schemes are adequate to provide positive discrimination.

Many believe that it must be ensured that the fisheries – in a situation where the developing countries' share of the world's fish export has increased considerably – are not exclusively regarded as a manufacturing industry. In Norway, the fisheries were previously regarded as a multifunctional sector on a par with agriculture, and local fishermen had statutory preferences that helped ensure coastal development. The NAMA-11 group, which includes Namibia, believes that this function for the fisheries in developing countries should be recognised in order that the developing countries have the opportunity to use their fisheries in the same way as Norway and others have done.

Considerations of the Commission

Norway has an expressed policy to support the developing countries' requirements and help preserve their policy space. This puts Norway in a dilemma in the NAMA negotiations. As the negotiations in principle require equally high tariff cuts in all sectors, implementation of Norwegian requirements on increased market access for fish will lead to significantly less latitude for developing coun-

6. This is a group of developing countries that have been extremely active proposers in the NAMA negotiations. The group consists of Argentina, Venezuela, Brazil, Egypt, India, Indonesia, Namibia, The Philippines, South Africa and Tunisia.

tries to regulate tariff rates within all sectors. When Norway is criticised for continuing its aggressive stance towards developing countries, despite various exemption schemes, the Commission believes that opportunities should be considered to meet this criticism instead of dismissing it as wrong. A key part of such a discussion must be which countries are defined as «vulnerable» and thereby qualify for favourable treatment.

The Commission with the exeption of Kristian Norheim believes that Norway should also follow the Storting's call to focus on the regulation negotiations on anti-dumping and non-tariff-related trade barriers instead of general tariff cuts that restrict policy space. While general tariff cuts are in the interests of the industrialised countries, non-tariff-related barriers are often key to the developing countries' market access in the OECD countries. Market access for Norwegian fish products is also affected by non-tariff-related barriers and anti-dumping.

The least developed countries are exempt from tariff cuts in this round of negotiations, but are urged to cement as many of their tariff lines as possible. They thereby risk being affected by tariff cuts in neighbouring countries with which they have a close tariff cooperation. Despite the exemptions, they can experience increased imports of industrial goods through this tariff cooperation, which can threaten jobs, further weaken an already negative trade balance and thereby increase foreign debt. Exemptions with a view to regional development and trade are therefore an important development factor in the negotiations.

There are many debates linked to development considerations in these negotiations, in addition to the balance between restricted tariff cuts and policy space, these also include preference erosion (developing countries lose in the competition in the event of general liberalisation), loss of tariff revenues and various favourable exemptions for different groupings of developing countries.

Commission members Anne K. Grimsrud, Linn Herning, Audun Lysbakken, Lars Haltbrekken and Hildegunn Gjengedal believe that the consideration to long-term, reasonable taxation of the global fish stocks and effective management of a renewable food resource must be paramount when negotiating trade rules for fish. Norway should offer cooperation in relation to effective management, both for wild fish and farmed fish, instead of setting requirements for developing countries in the NAMA negotiations that can undermine their own production.

4.5 Service negotiations (GATS agreement)

The international trade of services has increased considerably. Efforts are therefore underway to secure an extended agreement on the trade of services based on the same basic principles for the trade of goods. The service sectors' share of the GDP is estimated to be in the region of 1/3 in low-income countries, approximately 50 per cent in middle-income countries and around 2/3 in high-income countries. More than 70 per cent of people in employment work in the service industries.[7]

Services are negotiated in a different way from the other subjects. The GATS agreement covers both general provisions for all service sectors and specific obligations for individual sectors specified in national binding lists. The negotiations are mainly aimed at increasing each country's specific obligations, i.e. the countries bind more of their service sectors to the GATS agreement, or increase the level of liberalisation within an already bound sector. Countries have the power to exempt entire sectors or parts of sectors from obligations. The GATS agreement does not operate with favourable treatment or safety mechanisms for developing countries as with the other agreements. Efforts are currently underway to establish a least developed countries exemption, which will pave the way for positive discrimination in relation to requirements from the least developed countries. There are no exemption schemes that protect the least developed countries from requirements or obligations.

The Norwegian authorities would like to see a result in the service negotiations that strengthens the multilateral set of rules and facilitates/protects Norwegian business interests in the international competition. The key areas for Norway are shipping, telecommunication services, energy services and financial services. The authorities would also like to generally secure Norwegian industry at least equally good access to the export markets that companies' have to the Norwegian market.

Norway has presented extensive bilateral[8] and collective demands[9] in these negotiations. For example, together with other countries, Norway

7. http://www.regjeringen.no/nb/dep/ud/tema/Handelspolitikk/wto/WTO–Doha-runden/krav_tjenester/8.html?id=275685
8. http://www.regjeringen.no/nb/dep/ud/tema/Handelspolitikk/wto/WTO–Doha-runden/krav_tjenester/2.html?id=275679
9. http://www.regjeringen.no/nb/dep/ud/tema/Handelspolitikk/wto/WTO–Doha-runden/krav_tjenester/5.html?id=275682

has promoted requirements within energy services to countries such as Nigeria, Indonesia, Egypt, Ecuador, Brazil and Mexico in relation to liberalising the investment statutory framework/enabling investments. Norway also has requirements for the liberalisation of services with sectors such as telecommunication, energy, finance, the environment and the maritime sector.

The Government also wishes to protect development considerations in the negotiations and in 2005 decided not to set requirements for the least developed countries. Neither shall Norway set requirements for other developing countries in relation to higher education, and the supply of water and electricity.

Considerations of the Commission

With the exception of Julie Christiansen and Kristian Norheim, the Commission is concerned about the GATS agreement's unclarified relationship to the «public sector». The agreement states that it does not cover «services that entail exercising public authority» (Art. I.3b). However, this exception is limited in a way that enables different interpretations of what can be regarded as public sector. This means there is uncertainty in relation to future interpretations of the set of rules. It may mean that services which are currently regarded as being most practical to be provided by the authorities have to be put out to tender, also to the private sector.

The majority of the Commission members believe that there are three aspects of the agreement that should be debated:

– The GATS agreement's intervention in areas that were previously regarded as national politics,
– The opportunity to change policies and introduce new regulations, and
– The opportunity to protect the public sector.

These elements in the GATS agreement combined with the agreement's potential all-encompassing scope, means special challenges for developing countries' possibilities for adapting the regulation of the service sectors in line with changes in the economy and national development strategies.

Many developing countries are sceptical to enabling foreign deliveries of basic services such as the supply of water, education, health and electricity. Some countries have enabled privatisation and the sale of such services only to discover in the next round that only the customers with the ability to pay are prioritised. These experiences show the need to preserve the latitude to change policies that have undesirable consequences for development and the reduction of poverty. The developing countries have therefore made reservations against linking such service liberalisation with renewed legitimacy.

Norway still sets requirements for service liberalisation linked to sectors such as telecommunication, energy, the environment (including waste and hazardous waste), and the maritime sector. Among other things, the requirements entail the developing countries not being able to set requirements for the use of local goods and services, restrict the share of foreign ownership in national companies or put restrictions on sending capital out of the country.

The GATS agreement intervenes in what has traditionally been regarded as national policies. Potentially, the GATS agreement, as it stands today, can enter into all areas of national services. It is also clear that it is mainly rich countries in addition to well-developed service sectors in some of the economically strongest developing countries that have an interest in and potential to utilise the international trade of services. With regard to the Doha round, the volunteer aspect in the negotiation method has been questioned since major service providers such as the USA and the EU have set stringent requirements for the liberalisation of services as a condition of an agreement.

With the exception of Håvard Aagensen, Kristian Norheim, Julie Christiansen, Gunstein Instefjord, Malin Stensønes, Camilla Stang and Nina Røe Schefte, the Commission believes that liberalisation of the investment regulations for energy services seeks to limit the opportunities for countries to set requirements for international companies on local content, national ownership shares and technology transfers. If Norway and the other proposers make a breakthrough here, this will, for instance, render impossible an oil and energy policy on a par with that adopted by Norway upon expanding the Norwegian shelf.

Commission members Julie Christiansen and Kristian Norheim believe that developing countries can be served by foreign service providers having equal access to national markets in developing countries. Services – and not least infrastructure services – play a vital role in manufacturing and other industries being able to work well, and competition from service providers from industrialised countries can help to improve and increase the number of services both for manufacturers and consumers, including from local service providers. The requirements can supply these countries with the capital and knowledge they need in order to utilise their resources more effectively and achieve more rapid economic development. Where these countries prepare for an administrative regime in the energy sector in line with that used by Norway during the development of the activity on the Norwegian shelf, it should also be possible to avoid such an opening limiting the countries' potential to prioritise local content, national ownership shares and developing national expertise and jobs.

4.6 Bilateral and regional trade agreements

The hiatus in the WTO negotiations has led to countries with strong interests and a large capacity for negotiation attempting to find solutions through bilateral negotiations, and there has therefore been a steady increase in bilateral and regional trade agreements. More than 380 such agreements have been registered with the WTO.

These agreements have received criticism for being extremely unfavourable for the weak party where they have been entered into between very unequal parties. Agreements that have been entered into between rich countries and developing countries have a strong tendency to include agreement areas that previously have been rejected by developing countries within the framework of the WTO, or go farther than the WTO system of agreements. The problems associated with bilateral agreements that go beyond the WTO set of rules are referred to in the knowledge and investment chapters with regard to patent legislation and investment agreements respectively.

Norway primarily negotiates bilateral and regional agreements through EFTA, which as per May 2008 has 16 free trade agreements, five collaboration declarations, ongoing negotiations with six countries and three preliminary studies in progress. A new regional trade agreement between Norway (EFTA) and the South African Customs Union (SACU), consisting of South Africa, Botswana, Namibia, Swaziland and Lesotho, entered into force on 1 May 2008. Through this agreement, Norway will achieve approximately the same conditions as the EU, and the agreement will ensure that Norwegian exports of goods are not discriminated against in relation to the EU in South Africa. This is also what is referred to as an asymmetrical agreement, which gives the SACU better market access to the Norwegian market than Norway gets to the SACU's market.

Considerations of the Commission

The Commission warns against a development in which rich countries use their powers of negotiation to enter into bilateral agreements that include agreement areas that were previously rejected by developing countries in a WTO context. This is further covered in the chapters on knowledge and investment.

Development of this nature can contribute to undermining the multilateral system and can strengthen the marginalisation of poor countries in global trade, since rich countries mainly seek such agreements with the largest and richest developing countries and OECD countries.

In the tension between the bilateral agreements and the fundamental WTO principles, a debate is in progress concerning the potential to enter into asymmetrical agreements between developing countries and rich countries where the weak party is given preferential treatment. Norway and EFTA have chosen to interpret the set of rules as the possibility for asymmetrical agreements being present, ref. the EFTA-SACU agreement, while the EU has used the same paragraph as an argument to renegotiate its agreements with former colonial countries without asymmetry. The Commission believes it is important for Norway to commit itself to an interpretation of the set of rules that forms the basis for entering into asymmetric agreements.

Commission member Kristian Norheim does not share the views expressed by the rest of the Commission in the preceeding three paragraphs.

4.7 Norwegian trade with developing countries

Norway's share of the global trade is marginal, and the trade with developing countries is no exception. Exports to Africa and South America combined are only 2.3 per cent of all Norwegian exports. Imports are mainly concentrated around industrial products, and especially textile products and clothing (around USD 250 million each) and foodstuffs (around USD 50 million). Of approximately 7,000 products that are imported to Norway, approximately 5,900 are duty free. Products that continue to be subject to duties are mainly agricultural products, some processed foods and some chemicals and textiles/clothing.

Norway imports very little from the poorest countries. Imports from the least developed countries in 2005 totalled approximately NOK 893 million, which is 0.2 per cent of Norway's total import of NOK 357.8 billion.[10] Imports from four of the 50 least developed countries, Bangladesh, Cambodia, Equatorial Guinea and Mauritania, came to more than 80 per cent of this; approximately NOK 725 million. Imports from the remainder of the least developed countries, including all of Norway's partner countries in Africa were consequently less than NOK 170 million; just 0.04 per cent of Norway's total imports. The development in Norwegian imports for these 46 countries has been negative in recent years, not just as a share of total Norwegian imports but also in terms of nominal value in Norwegian kroner.

In 2005, middle-income countries in East Europe and East Asia accounted for between 10 and 15 per cent of exports of industrial goods to Norway, and these regions have increased their market shares considerably since the end of the 1980s. The market share for South America, the Middle East/North Africa and southern Africa are on the other hand less than 1 per cent, while Southern Asia is less than 2 per cent.

In 2004, Central and South America and Africa combined made up less than 1 per cent of total exports of services to Norway, main labour-intensive services within the shipping industry. Europe and North America accounted for more than 90 per cent. Once again it can be seen that despite low tariff restrictions on services, low-income countries have not achieved any great economic return from exports to the Norwegian market.

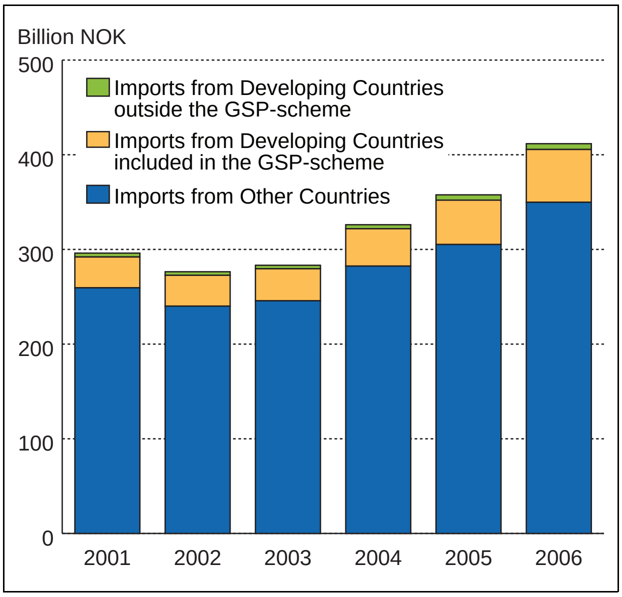


Figure 4.4 Total imports and imports from poor countries to Norway 2001–2006

Source: Statistics Norway, 2008:
http://www.ssb.no/emner/09/05/uhaar/tab-35.html
http://statbank.ssb.no/statistikkbanken/

It is still within the agricultural sector that the least developed countries have the greatest production and potential for export in the short term. As with other OECD countries, Norway has highly varied market access for agricultural products, mainly with stringently regulated market access for self-produced goods and open access for non-self-produced agricultural products. Calculated in terms of calories, Norway imports approximately 50 per cent of agricultural products including sugar, but the bulk of this comes from other industrialised countries.

Norwegian imports from the least developed countries have increased in two areas.[11] The import of clothing from Bangladesh has risen from roughly zero in the mid 80s to almost NOK 413 million in 2005, and made up around half of Norway's total imports from the least developed countries in 2005[12]. Direct imports from Tanzania totalled NOK 45 million in 2005, which is a slight increase from the figure for 2000.

The Norwegian GSP scheme was last changed in 2008 when it was decided that the countries classified by the OECD/DAC as development aid recipients (referred to as the DAC list) should be covered by the zero-for-LDC scheme. A further 14 countries were thereby embodied in the scheme[13]. In addition, the GSP system's scheme, with 10 per cent tariff reduction within the WTO's minimum access quotas for certain agricultural products, was increased to a 30 per cent tariff reduction, which among other things led to Brazil's export quota for beef being tripled. However, this expansion does not cover low-income countries with a population of more than NOK 75 million, which excludes India, Pakistan, Nigeria and Vietnam.

10. 'Developing countries' market access to Norway – A review of the Norwegian GSP scheme with proposals for improvements', Ministry of Foreign Affairs, 03/2007, p.11.

11. 'Developing countries' market access to Norway – A review of the Norwegian GSP scheme with proposals for improvements', Ministry of Foreign Affairs, 03/2007, p.11. http://www.regjeringen.no/Upload/UD/Vedlegg/Handelspolitikk/gspfinal.pdf

12. Disregarding the isolated oil import from Equatorial Guinea in 2005, Bangladesh's share of the least developed countries import is even higher.

13. 'Changes to the Norwegian GSP system with effect from 1 January 2008', a directive from the Norwegian Customs and Excise Service, 11 January 2008. http://www.toll.no/templates_TAD/CircularLetter.aspx?id=132415&epslanguage=NO

Considerations of the Commission

Developing countries' exports to Norway and other rich countries are not only restricted by Norwegian tariff barriers and non-tariff-related barriers, but also by the countries' lack of capacity to compete in international markets. Liberalisation of tariff restrictions on imports from developing countries is therefore not often enough to guarantee either an increase in trade with or increased export revenues for developing countries. It is also necessary to strengthen the production capacity in developing countries.

The fact that Norway's import from the poorest and most vulnerable countries is so modest is a challenge. Although Norway has had a preference in the form of zero tariffs for imports from the least developed countries since 2002, this has not had the desired effect on the import of goods from developing countries to Norway. Imports from these countries are rather insignificant. The Commission believes that the main challenge with the Norwegian schemes is that good preferences are given to countries that are not able to make use of these, while poor countries with a large potential for exploiting preferences have not been given the opportunity to do so as they do not fall under the least developed countries category. The change that was approved by the Storting in 2007 to extend duty-free and quota-free status to include low-income countries represents an important step in the right direction.

The Commission believes that predictability and taking a long-term view will be crucial to the development of competitive production in these countries and trade connections with the Norwegian market. It will therefore be important that assurance is created in relation to the enforcement of the security and monitoring mechanism linked to duty-free and quota-free imports from low-income countries, and that schemes are established to enable preferences to be linked to the WTO set of rules. Norway should to a greater extent adapt its agriculture to an increased import share of agricultural products from developing countries. The Commission further believes that due to the increased danger of a global food shortage, it is part of Norway and all countries' global responsibility to produce food.

Commission members Hildegunn Gjengedal, Lars Haltbrekken and Anne K Grimsrud believe that the low-income countries' low import share is primarily related to the lack of production of desired products and competitive power in the poorest countries, and preferences given to other industrialised countries, as in the EU. Norway currently imports around 50 per cent of the food we need in terms of calories, and there is a large potential for increasing the developing countries' share of this import, without it affecting Norwegian production. By extending the current preference schemes to more countries, there is an imminent danger of the least developed countries being marginalised even further. Neither is it a goal in itself to increase the export of agricultural goods from developing countries unless this leads to a reduction of poverty. An increased focus on exports can lead to poorer security of foodstuffs, environmental problems and a further marginalisation of the poorest.

4.8 Ethical trade and fair trade

Fair trade refers to guarantees aimed at ensuring the manufacturers are paid a reasonable amount for their products. In Norway, almost all fair products are labelled Fairtrade/Max Havelaar. In 2007, sales of such products totalled NOK 38 million. This is an increase of 12 per cent from the previous year. Although the increase is considerable, the volume continues to be low. In 2006, slightly more than NOK 15 was spent per capita on fair products labelled Fairtrade/Max Havelaar. According to figures by the Fairtrade Foundation, UK consumers spent almost four times as much on such products.

Ethical trade is a collective term for socially responsible business activity that is process-oriented and which endeavours to protect human rights, employees' rights, development and the environment throughout the value chain. The Ethical Trading Initiative Norway (ETI-Norway) was established in 2000 by Norwegian Church Aid, the Norwegian Confederation of Trade Unions, the Federation of Norwegian Commercial and Service Enterprises (HSH) and Coop Norway. During the ETI-Norway's existence, ethical trade has become increasingly more topical. Commodity trade in Norway is based on goods produced in other countries to a steadily growing extent, often without satisfactory monitoring of working conditions and protection of employees' rights. A survey conducted by Opinion and commissioned by Norad in 2006 also shows that consumers have a clear wish to act responsibly, and that ethics and responsibility are clear motivational factors when buying goods. Almost three out of four (72 per cent) say it is important for them that foodstuffs are produced in an ethical and responsible manner. Four out of five also agree that Norway should trade more with developing countries. Ethical trade therefore affects the majority of Norwegian companies either directly or indirectly.

Ethical trade has to some extent contributed to the improvement in health and safety of companies in the south[14]. However, it has had little effect on areas such as freedom of association and discrimination. Employees with standard working conditions more often experience improvements than temporary employees, but it is also clear from the surveys that it is difficult to attribute improved working conditions with the ethical trade alone. Nevertheless, it has been demonstrated that it is a positive effect of a critical mass of companies following accepted standards for employment conditions, particularly when the various players in the field cooperate[15].

Fairtrade is a partnership that calls for sustainable development for excluded and disadvantaged manufacturers through better trade conditions and efforts aimed at behaviour. In order for the consumers to be able to place emphasis on ethical, social and environmental aspects, easily-accessible information on these conditions needs to be available. Fairtrade is an independent international certification scheme that gives its approval to products that are produced and traded in accordance with standards for social responsibility. The aim is to put consumers and disadvantaged manufacturers in contact with each other through a label for fair trading conditions. In this way, the disadvantaged manufacturers' possibilities for taking control of their own future and fighting poverty are strengthened.

The public sector buys goods and services for NOK 275 billion a year. When buying goods and services the potential for reducing impacts on the environment and for promoting ethical and social considerations is high. It is therefore important which requirements the Government and local authorities set as a buyer. When definitive criteria are set for the environment and ethical/social considerations in the purchasing process, companies that supply such products and services are more likely to win the competition on equal terms. The Government has initiated efforts to devise a three-year plan of action for environmental and social responsibility in public procurements. A key part of the plan of action is the contribution to an increase in expertise and guidance on environmental and social responsibility in public procurements and mapping of what room to manoeuvre exists for setting ethical and social requirements within the current national and international rules for public procurements.

Considerations of the Commission

The Policy Coherence Commission with the exeption of Kristian Norheim believes it is important to both increase the trade with developing countries and the share that is nowadays referred to as ethical and/or fair trade. It is important to provide consumers with sufficient information on the content of the goods and on the conditions in which the goods were produced so that the individual consumer is given more opportunity to help ensure that environmental and social considerations are better protected. Reliable knowledge through, for instance, information and product labelling, can help consumers to make good choices as easily as possible.

Access to such information is however, lacking, and the Commission thinks it is unsatisfactory that Norwegian importers do not have any form of disclosure requirement to the consumers regarding the origin of the product or whether consideration has been given to the environment, human rights and the prohibition of corruption. The public sector's purchase of goods is also considered to be important by the Commission, as there is a considerable potential to facilitate ethical and social considerations in the choice of suppliers.

Commission member Kristian Norheim believes that free trade is fair trade and that 'Fairtrade' is not fair. The majority of producers in developing countries will not benefit from rich white people trying to launder their conscience by purchasing products branded as produced in a fair or ethical manner. Large scale prosperity is created by genuine economic growth and development. Instead of promoting poverty reduction by investing in small scale trade projects Norway should support policies that open up world markets to all producers in developing countries and not only favours the tiny minority who have been fortunate enough to obtain a 'western' mark of approval on their products. Token policies cannot save the world's poor. Norway should abstain from such policies and give Norwegian consumers the opportunity to buy more goods from developing countries as well as stimulate them to do so instead of using customs barriers or indirectly frightening Norwegian consumers through campaigns such as the «Norwegian products for Norwegian consum-

14. «The ETI code of labour practice: Do workers really benefit?» Institute of Development Studies 2006
15. Barrientos, Stephanie and Smith, Sally (2006) Report on the ETI Impact Assessment 2006, The Institute of Development Studies (IDS), University of Sussex

ers» by the Foundation KSL Matmerk (foodbrand) set up by the Ministry of Agriculture and Food in 2007.

4.9 Travel and tourism

Tourism is one of the strongest growing industries in the world. Tourism is ranked as the third largest sector in the economy of more than 50 of the world's poorest countries. Every third tourist in the world travels to developing countries. Only a small proportion of these go to southern Africa, but the region has the quickest growing tourist industry in the world. Tourism is a labour-intensive sector in which developing countries have a comparative advantage. In many countries, travel and tourism give the world's poorest populations more legs to stand on. Work and increasing incomes of people living in the tourist destinations make a positive contribution to the reduction of poverty through the supply of goods and services, both in the travel destinations and through external effects such as the development of infrastructure.

Although tourism can contribute to growth and welfare for large numbers, poorly regulated tourism can result in overburdening vulnerable areas, deterioration of the environment and the destruction of biodiversity. Existing and potential tourist attractions can therefore be affected in a way that has an impact on earnings and can also therefore be harmful to the economic development. It can also be seen in certain areas that the developing countries retain very little of the tourist revenues. There are examples from the Caribbean that show that 70 per cent of all tourism revenues leave the country: the tourists use imported goods, the hotel chain owners get most of their supplies from abroad and the capital that is injected is foreign. Another challenge faced by poor tourist areas is an increase in prostitution and trafficking.

International tourism has changed in the past 10 years in line with the heightened awareness of sustainability and the socio-cultural, economic and ecological effects of tourism. Both the supply and demand for tourism have received impetus from studies[16] that have shown that by combining the protection of natural areas with tourism, we can help preserve the local environment, at the same time strengthening local industry and thereby helping to reduce poverty. Many of those marketing themselves under the banner sustainable tourism claim to make a positive contribution to the local economy and to protecting and raising awareness of the environment and cultural heritage where they operate. The UN's attitude-forming efforts have been very important with regard to affecting the industry. The UNWTO and the United Nations Environmental Programme (UNEP) have given positive impetus to the industry and the UN's TOI (Tour Operators Initiative for Sustainable Development) is uniting a number of major tour operators to work towards sustainable

16. For example UNEP 2003 and http://www.ecotourismglobalconference.org/

Figure 4.5 Many developing countries have a large potential for sustainable tourism.

strategies for tourism. The UN resolution on sustainable travel and the Global Code of Ethics for Tourism are other examples of important initiatives that act as guides for the tourism industry as regards sustainable tourism.

A more cultivated form of sustainable tourism is the so-named ecotourism. In 2004, ecotourism grew three times as fast as the tourism industry as a whole, and a market analysis by the GRIP foundation (Green in Practice) indicates that as much as 11–22 per cent of the population in western countries may be interested in taking part in this type of tourism.[17] However, the concept has been criticised by, among others, The Pro-Poor Tourism Partnership, which was formed by the DFID in 1999[18] and which believes that ecotourism gets too much attention in relation to mass tourism, for example, which can have a greater potential to reduce poverty.

GRIP has contributed to the development of the ecotourism alliance known as *African Ecotourism Alliance*. Such alliances can both help to transfer expertise and information, as well as provide advice on requirements, guidelines, quality labelling and relevant international conventions. Expertise can also be transferable in cases where the local community is faced with difficult negotiations with foreign investors wanting to focus on tourist development. Such organisation and network-based gathering of knowledge and sharing experiences on a south-to-south basis should be supported by the Norwegian authorities.

Considerations of the Commission

For more than 50 of the world's poorest countries, travel and tourism are already ranked as the first, second or third largest sector in the countries' economy. The potential for further strengthening travel is, however, considerable in many countries. Simultaneous to this, it will be important to try to strengthen a sustainable tourism industry, which both contributes to reducing poverty and preserving the environment and culture whilst being a possible source of mutual understanding and respect between cultures.

Many consumers are willing to accept a higher price in order to ensure that the travel they purchase has a social and environmentally-friendly profile. Sufficient and reliable information, quality labelling and marketing are, however, crucial to the consumers being able to find their way in the market and for helping to change attitudes in such a way that the players choose the best alternatives from an ethical perspective. The authorities can provide such information in order to facilitate social responsibility and good ethical choices.

Increased awareness in the tourism industry and among consumers of positive and negative effects of tourism will hopefully mean more development effects from tourism. The Commission wishes to place emphasis on the importance of local spin-off effects through local employment, purchasing and ownership. By using local input factors and raising the awareness of conditions related to employment, the environment and production, the tourism industry could increase the positive development effect of its activity.

Commission member Kristian Norheim does not agree with these views by the Commission majority.

4.10 Proposal for initiatives within the trade policy

In line with the Commission's considerations, there is potential in a number of areas for modifying the Norwegian trade policy in a more development-friendly direction. The Commission recommends that the Norwegian authorities construct a more development-friendly trade policy based on the following three pillars:

– International trade rules that strengthen the developing countries' possibilities and ensure the necessary policy space.
– A Norwegian trade and trade policy that prioritises the considerations to development.
– A consumer policy that facilitates ethical and fair trade.

4.10.1 International trade rules that strengthen the developing countries' possibilities

The Commission recommends that greater emphasis is placed on development aspects in shaping Norwegian negotiation positions in the World Trade Organisation (WTO). Norway needs to place emphasis on both market access and policy space for developing countries in the negotiations. Steps in this direction will include the following:

1. Norway must work actively in order to make the developing countries' positions visible and for formalised rules for transparency, participa-

17. GRIP ceased to exist in June 2008 http://www.grip.no/okoturisme/Markedsanalyse.htm
18. http://www.propoortourism.org.uk

tion and representation in the negotiations that provide marginalised countries with a better basis for negotiation. The Government should regularly submit a white paper on the WTO negotiations in which the development perspective is pivotal. The Minister of the Environment and International Development should be involved actively in the shaping of Norwegian negotiation positions in the WTO.

2. With the exception of Kristian Norheim and Julie Christiansen, the Commission believes that Norwegian exports of fishery and seafood products must not be forced at the expense of developing countries' possibility for the tariff protection of manufacturing and sea industry sectors. Norway must therefore reduce its requirements for market access in developing countries within the NAMA negotiations. Norway must also pursue and support the efforts with various exemptions for developing countries in the NAMA negotiations, in order to ensure positive discrimination for the developing countries and the potential for a longer period to protect sectors and industries under development.
3. With the exception of Kristian Norheim, the Commission believes that in the NAMA negotiations in the WTO, Norway should work to strengthen the set of rules for anti-dumping within the fisheries industry since this is an important matter for many developing countries.
4. With the exception of Kristian Norheim and Julie Christiansen, the Commission believes that water, health and education should not be sectors that are subject to the GATS regulations, but be protected with a view to future generations' possibilities for regulating these basic services for the good of the population. Norway should strive for a clarification and extension of the definition of public services, which secures the opportunity to protect these from the negotiations.
5. With the exception of Kristian Norheim, Camilla Stang, Malin Stensønes and Julie Christiansen, the Commission believes that an extended WTO set of rules for services must contribute to clear and predictable rules for the international trade of services, but must not impede developing countries' possibilities for developing competitive players/companies within the service sector. It is therefore recommended that Norway strives for the necessary flexibility in the set of rules, with possibilities for national handling, and that Norway does not require liberalisation in developing countries that entails phasing out of business policy instruments such as positive discrimination of and subsidies to national service providers/players/companies. This particularly applies to sectors such as telecommunication, energy and financial services.
6. With the exception of Gunstein Instefjord, Håvard Aagensen, Malin Stensønes, Camilla Stang, Nina Røe Schefte, Kristian Norheim and Julie Christiansen, the Commission believes that within the GATS negotiations, Norway should not require the liberalisation of mode 3 (investments/establishment/commercial presence), since this puts restrictions on a country's potential to use political instruments, for instance, requirements for local labour or local input factors, which can contribute to long-term development. (See also initiatives on bilateral investment agreements.)
7. The Commission recommends that in the WTO, Norway strives for the greatest possible reduction of both direct and indirect export subsidies. The Commission recommends that a critical review is undertaken of all Norwegian subsidy schemes in light of this.
8. With the exception of Kristian Norheim and Julie Christiansen, the Commission believes that Norway should strive for developing countries being given the opportunity to use import protection in order to protect and develop their own agriculture. Among other things, this entails Norway actively supporting the developing countries' requirements associated with special safety mechanisms and protection of special products.
9. Norway should work to strengthen the predictability of the preference schemes by these being bound in the WTO system. It is recommended that pending a set of rules for binding preferences, Norway makes a binding declaration on the binding of its own preference schemes and challenges other countries to do the same.
10. Norway should work actively to strengthen developing countries' potential to make use of the dispute resolution mechanism. This entails Norway having to oppose every exemption from the use of the dispute resolution mechanism (previously known as the peace clause) unless it applies to very limited negotiation periods.

4.10.2 Bilateral trade agreements that emphasises development considerations

With the exception of Kristian Norheim and Julie Christiansen, the Commission recommends that Norway places emphasis on asymmetrical bilateral and regional trade agreements that give benefits for developing countries both with regard to market access and protection rights.

1. When signing bilateral or regional trade agreements, Norway should respect the multilateral system and not include topics that have been rejected by the WTO unless this is a request from developing countries. Special rules apply for investment protection and TRIPS+ elements. (Investment agreements are covered in the investment chapter and TRIPS in the knowledge chapter.)
2. Norway should include exemptions and protection mechanisms in its trade agreements that can develop and strengthen national production and service sectors in developing countries.

4.10.3 A Norwegian trade policy that prioritises development considerations

The Commission believes that the developing countries' import share to Norway should be increased. Norwegian preference schemes aimed at developing countries (Zero for low-income countries, the GSP system and quotas) must give real and predictable market access.

1. The Commission recommends that the scheme for duty-free and quota-free status is evaluated on an ongoing basis with a view to further improvements where these are shown to be necessary. Commission members Hildegunn Gjengedal, Lars Haltbrekken and Anne K. Grimsrud believe that the evaluation must take into account preference erosion for the poorest countries, Norwegian production and food security in the exporting countries.
2. Commission members Gunstein Instefjord, Julie Christiansen, Håvard Aagesen, Kristin Røymo, Malin Stensønes and Kristian Norheim believe that the zero tariff scheme should be extended whereby all low-income countries regardless of population numbers are included in the scheme and that greater tariff reductions are given within certain product groups for middle-income countries.
3. Norway should also use preference schemes to turn the import away from industrialised countries and towards developing countries with production capacity. In this connection, Norway should propose in the negotiations with the EU that a share of the quotas for agricultural products is given to developing countries.
4. The monitoring and safety mechanism with the reintroduction of tariffs must be handled according to clear criteria and in such a way that it does not conflict with the preference scheme's aim of increasing the import share from developing countries. It should not come into force until a thorough assessment has been carried out in which development considerations and the purpose of the preference scheme, and not just price stability in the Norwegian market, must be heavily weighted. Commission members Hildegunn Gjengedal and Anne K Grimsrud believe the safety mechanism is necessary and legitimate in order to secure Norwegian production, and until now has not had a bearing on imports from developing countries.
5. The Commission believes that the Norwegian subsidy arrangement must be modelled in such a way that Norway does not exploit an inadequate set of rules in the WTO that permit indirect export subsidies. Commission members Hildegunn Gjengedal and Anne K Grimsrud believe this can be done in the degree it has a direct effect for the developing countries. If not, it must be carried out using multilateral means in order to ensure that it does not just lead to increased competitive power for other industrialised countries.
6. Norway should, both in the WTO and with regard to the EU, strive to ensure there is no abuse of non-tariff-related trade barriers such as hygiene requirements etc. in relation to the developing countries' exports to the European market.
7. Norwegian importers and the trade link must be stimulated to take greater responsibility for importing and selling more products from developing countries. It is important to enable and support initiatives aimed at identifying goods that are suitable for volume import.
8. The Commission recommends that a review is undertaken of the tariff regime in order to prevent developing countries being exposed to tariff escalation on processed agricultural products.
9. Commission member Kristian Norheim believes that free trade and economic growth are the most effective instruments for releasing a country from poverty. Norway should lead by

example and remove all tariffs on goods from developing countries (all four categories on the OECD list), including the introduction of full quota-free status on products from developing countries. The monitoring and safety mechanism should be removed immediately. A review should also be undertaken of non-tariff-related barriers from the Norwegian side that can be a barrier for increased trade with the developing countries.

4.10.4 Ethical and fair trade

1. The Commission with the exeption of Kristian Norheim recommends that the public sector's purchase of goods and services is aimed at goods that are produced in a socially and environmentally sustainable manner. This includes tender procedures setting requirements to ensure that social responsibility and considerations to the environment are covered as understood in accordance with relevant international rules. The Commission recommends mapping the potential for increased procurements outside the EEA area by announcing public tenders in developing countries. This should be done in connection with the work initiated by the Government aimed at creating a plan of action that, among other things, will map the room to manoeuvre for setting ethical and social requirements within the current national and international rules for public procurements.
2. The Commission with the exeption of Kristian Norheim believes that one of the objectives should be that consumers are given the best possible information on where and how the products are produced. Norwegian importers should be urged to maintain an overview of manufacturers and to be open about which subcontractors they have in developing countries. The authorities should support the initiative that develops and gives companies access to tools for handling ethics in the value chain. Norwegian importers should be able to provide and maintain compliance information on employment terms and conditions in their supplier chains.
3. The Commission with the exeption of Kristian Norheim recommends exemption from VAT for goods that guarantee that a product is sustainably produced, that the employees' rights are respected and that the pay employees receive is relative to production and living expenses. In order to achieve this, an approval scheme must be established of independent certification schemes for fair trade.
4. The Policy Coherence Commission with the exeption of Kristian Norheim wants to underline the importance of the trade chains having a good and visible assortment of goods and services with their ethical and sustainable backgrounds labelled using independent and credible labelling schemes. The authorities should contribute to this by supporting labelling schemes and lead an active dialogue with the trade industry and relevant players on this topic.

4.10.5 Tourism

1. The Commission with the exeption of Kristian Norheim recommends that a collaboration is initiated with the tourism industry on how, by purchasing services and through cooperation with local suppliers, they can contribute to good working standards and employment rights as well as sustainable management of natural resources. In the collaboration with the tourism industry, the authorities should help to focus on the importance of local purchases and employment, as well as cooperation with local suppliers. By using local input factors and increasing the awareness of working, environmental and production conditions, the tourism industry will be able to increase the positive development effect of its activity.
2. The Commission with the exeption of Kristian Norheim believes it is important to make it easier for consumers to make conscious choices in connection with travel to developing countries, and that the awareness of the tourism industry's positive and negative development effects is increased. Based on the models and good practice examples that exist within ecotourism and culture-based travel, the authorities should contribute to the further development of various certification schemes for ecotourism and culture-based travel and support initiatives that can help consumers be aware of these. The Norwegian authorities should, together with the travel industry, initiate a global Code of Conduct for the travel industry, which includes minimum standards in line with ILO standards (including minimum wages, employment terms, prohibition of child labour and sex trafficking). The guidelines should apply both to a country's own operations in developing countries and to the choice of local collaboration partners.

Chapter 5
Business sector investments

5.1 Business sector investments in developing countries and poverty reduction

From a historical perspective, one of the most important sources of economic development and the reduction of poverty has been access to capital. At the same time, poor countries have only had a small part of the world's investments. It is therefore important to address the question of why the global capital flows between countries are directed as they are and what can be done to improve the access to capital for poor countries.

In addition to the scope of investments in the developing countries, the quality and spin-off effects from the investments are vital in a development perspective. There are three main challenges that need to be met if investments are to have the greatest possible effect on development and poverty reduction. First, the investment must contribute to increased value creation and growth. Next, it must ensure that the greatest possible share of the value creation remains in the country. This can be done through various mechanisms, via direct money transfer to the Government such as taxation or royalties, and by using local suppliers and labour, which creates economic spin-off effects. Finally, it is important that the use of revenues in the host country goes towards development-promoting purposes.

The share of private international capital continues to grow in relation to the volume of multilateral and bilateral aid. In 2006, foreign direct investments (FDI) to developing countries totalled USD 379 billion, compared with USD 104 billion in total aid grants.[1] Despite this increase there are still major

1. UNCTAD, 2007; OECD, 2007: Development Cooperation Report

Figure 5.1 The agricultural sector is one of the most profitable for investments in developing countries.

disparities between countries' capacity to attract private capital. Since 1970, 2/3 of direct foreign investments outside the OECD area has gone to only 10 countries, including China, Hong Kong, Singapore and Russia. Among the low-income countries, four oil-producing countries – Angola, Equatorial Guinea, Sudan and Yemen – have had almost half of the investments.

Part of the increase in the global flow of capital is due to the increase of foreign direct investments between developing countries. These increased from USD 63 billion in 2005 to USD 110 billion in 2006, which corresponds to 16 per cent of all foreign investments. Among developing countries that have become major investors, we find that India now exports more capital to the UK than it imports from the UK. The steadily stronger political and economic connections between China and Africa are another example of this development. Through investments in the extractive industries and aid for health, education and infrastructure, China's influence on the investment climate on the continent has increased and Chinese capital has become a particularly crucial source of income for many countries. For Western aid donors, this means that their dialogue with the recipient countries on political development is increasingly affected by new players such as South Africa, India, China and Brazil.

Measuring the development effect of foreign investments is complicated as it is difficult to separate it from other key factors such as domestic investments and national and regional political interventions. Attempts are often made, therefore, to estimate the positive economic spin-off effects of the investments, and then study the effect of these on the reduction of poverty.

Foreign companies often pay higher wages than local companies, thereby increasing the income basis for the host country through tax and royalties. In countries with a good social income distribution policy, the poor benefit from this. Companies that also produce for local markets in the developing countries often contribute to lower price levels through increased competition between suppliers. Such investments can also link local suppliers to international markets and give access to new technology and knowledge.

However, foreign investments can also have negative economic and political spin-off effects.

Box 5.1 Investments seen from the South

«It is often highlighted that FDI can bring about positive development outcomes. This is indeed true, but with the caveat that this is not a foregone conclusion but can only happen under certain conditions.

Unfortunately, the caveat is often ignored and it is not unusual to see FDI represented as development finance pure and simple. It is this mischaracterization, which has been actively facilitated by several major development actors who should know better, that has been partly responsible for developing countries trying to outdo each other in trying to maximise the volume of investments they attract.

This is at least partly responsible for the race to the bottom we sometimes see in

– tax concessions,
– labour,
– environmental
– and social standards

However, it is clear that all FDI and private capital flows do not contribute to financing for development or indeed development. Private capital flows are for profit transfers not gratuitous flows. This means that for the most part for every $100 million invested, $150 million (or more) would be taken out, perhaps over a period of a few years.

The main potential benefits of private investment lie then not in the money it brings in but in its indirect spill-overs. FDI has the potential to generate development benefits by bringing in

– new technologies
– managerial know how which can help upgrade local skills
– better social, environmental, gender equality and labour standards
– by creating decent work, well paid jobs
– through inter-linkages with the local economy
– and by paying taxes and royalties which the Government can then use to finance development

For the most part, this has not happened.»

Sony Kapoor, Director,
International Finance, Environment & Development Consultant (India, UK, Norway)

Investments in extractive industries in countries with a poor governance, are for example often associated with corruption and violation of human rights. Similarly, working conditions that are extremely open to criticism are often found in the so-called free economic zones where foreign companies can produce and export tax-free with cheap labour and the spin-off effects for the host country are very limited. Neither do foreign companies that pay low or no tax and duties to the Government contribute to revenues that could be used to finance a good social distribution policy.

Based on these different experiences, there are various points of view on the significance of foreign investments in the development policy. On the one hand, many claim that foreign direct investment is vital to development because it gives poor countries access to capital and advanced technology, introduces new knowledge and results in better connections to international markets. Poor countries can also secure themselves a place in the global production chain in this way. On this basis, investment agreements that provide extensive freedom for foreign investors are normally recommended for poor countries.

On the other hand, critics of the emphasising of such investments believe that they often lead to a concentration of power in the hands of large, foreign companies and that multi-national companies can avoid taxation through what is known as transfer pricing. Another argument that is given is that foreign investments can impede local investments because the country's own companies are not strong enough to compete with the foreign companies. Advocates of this point of view like to claim that direct foreign investments must be part of a national development strategy, in which the authorities have the freedom to regulate conditions and what sectors of the economy should be opened to external investment.

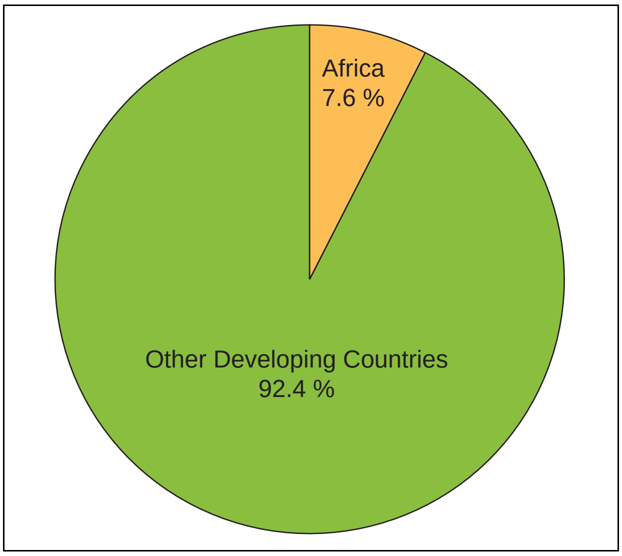


Figure 5.2 Africa's share of the FDI to developing countries. 1970–2006

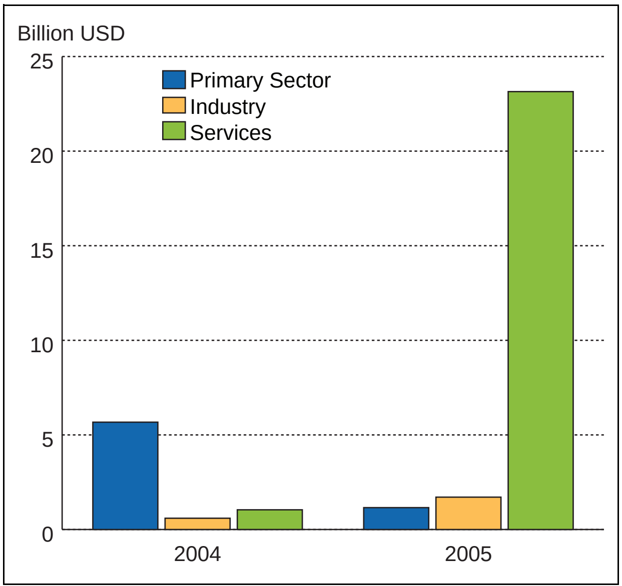
Source: UNCTAD, FDISTAT (http://stats.unctad.org/FDI/TableViewer/tableView.aspx?ReportId=899)

Although short-term, indirect investments can contribute to increased access to capital for local capital markets and thereby for national companies. In order to be able to command real investment opportunities and become a good alternative to loan financing, however, the financial markets in the south must be developed. Large cash flows can also have a destabilising effect on financial markets in developing countries. Non-regulated capital flow enables speculation and large, short-term movements of capital in and out of the individual economies. In the worst case scenario, this can trigger finance crises that can have major economic and political bearing on vulnerable developing countries. This problem also has a democratic dimension; democratically elected Governments can restrict or defer political changes out of fear of reactions in the financial markets.

5.1.1 The marginalisation of the Least Developed Countries

Most of the Least Developed Countries have so far had limited access to foreign direct investments, with the exception of the extractive industries. Since the start of the millennium, the large capital flows have transferred from Latin America to various parts of Asia, while the figures for the other regions have largely remained stable. In 2006, 42 per cent of all private investments in developing countries went to East Europe and Central Asia, and 28 per cent to East Asia. Africa accounted for only 6 per cent and in relation to all foreign direct investment, Africa's share in 2006 was a modest 2.7 per cent, down from 3.1 per cent in the previous year. The bulk of this went towards the extraction and export of oil, gas and minerals.

One reason why the poorest countries are marginalised is that private investors mainly make their investment decisions based on analyses of risk, returns and security. The political and economic conditions in many of the least developed countries with political instability and uncertainty, poorly developed financial markets and infrastructure, lack of legal safeguards, wars and conflicts, are very widespread and results in the investments going to other countries. Other factors that are often mentioned are a lack of infrastructure, lack of



Figur 5.3 Foreign direct investments[1] in Africa, by sector. 2004 and 2005. USD billion

1 Includes acquisitions and mergers, but not new start-ups
Source: World Investment Report 2006, UNCTAD.

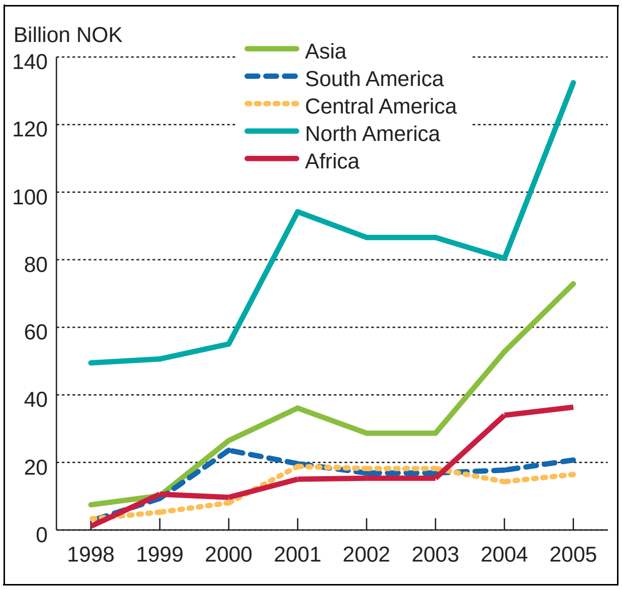


Figure 5.4 Norwegian investments in developing countries. NOK billion

Source: Statistics Norway

an educated workforce and a lack of local markets. Low taxes, however, seldom appear to be the main reason for companies setting up in a country. On the other hand, it can be a deciding factor when the choice is between locations in two countries with otherwise relatively similar conditions.

5.1.2 Norwegian investments in developing countries

Norwegian investments account for a very small part of the total foreign investment in developing countries, but constitute a major part of Norwegian financial flows to the same countries. The pattern in Norwegian foreign investments is relatively similar to the pattern in investments from other industrialised countries. Norwegian public financial flows to developing countries concentrate on the major emerging markets such as China, Russia and Chile, as well as various countries in central Asia. The investment pattern reflects the degree of relative investment risk between different countries, and the sectors in which the Norwegian business sector has a particular advantage, especially energy.

StatoilHydro, Telenor, Jotun and Statkraft are among the largest players in Norway with regard to direct investments. In 2006, direct investments from Norway to developing countries totalled NOK 115 billion.[2] Indirect investments, such as placements in shares and bonds are made through both private and public funds, particularly insurance funds and the Government Pension Fund – Global. In 2006, investments of this type in developing countries amounted to NOK 216 billion, compared with total aid from Norway of almost NOK 19 billion.[3]

With regard to portfolio investments (shares and securities), the main challenge is that the share markets and stock exchanges in many poor countries are not well developed. Norwegian funds can invest in companies that operate in these countries but it is difficult to find many interesting investment objects that are registered on the stock exchange. The stock exchanges in developing countries that are of interest for Norwegian funds are normally in relatively well-developed countries, such as Brazil, India and South Africa, where it is easier and safer to meet the rate of return requirements. It is difficult, in the short to medium term, to envisage portfolio investments, for example through the Government Pension Fund – Global, becoming an important tool for reducing poverty in the poorest countries. In this case, these countries must first get help to develop competitive stock exchanges. In addition to these capital flows, Norwegian development aid funding is channelled through Norfund to development projects and

2. Figures from Statistics Norway. Total figures from the regions Africa, Asia, Central and South America.
3. Same source as above

development-oriented investment funds, while GIEK offers guarantee and credit schemes for Norwegian companies wishing to invest in developing countries.

Considerations of the Commission

Access to capital has historically been an important source of economic development. Capital brings with it many opportunities for the transfer of knowledge and market access, which are crucial for gaining momentum in economic development. Although foreign investments in Africa have grown from USD 9 billion in 2000 to USD 36 billion in 2007, the general picture is that Africa is lagging behind. The foreign investments there are also concentrated around oil, gas and the mining industry, and are very unevenly distributed both between and within countries. It is normally sectors with a large degree of profitability that attract investments. Countries with poor framework conditions often end up in a negative spiral in which they often compensate for this by offering investors extremely favourable terms with regard to tax, ownership of resources and alterations to regulations.

The key factor for ensuring that foreign direct investments make a positive contribution to development lies in the recipient country's own regulations, and in how the community surrounding the investment object is organised. Fiscal policy is one such vital prerequisite. If the investment leads to tax revenues of significance it will also lead to more funds being used to develop welfare and combating poverty. Whether foreign investments create economic spin-off effects can also be dependent on the degree to which local subcontractors are given work linked to the investment, and of the wage level of locally-employed personnel. The degree of knowledge transfer is also determined by the degree to which, and at what level, local employees and collaboration partners are linked to the activity. All of these factors are affected by the framework conditions that political authorities set for foreign investments.

With the exception of Julie Christiansen and Kristian Norheim, the Commission believes that international, regional and bilateral agreements on trade and investments can contribute to the authorities' policy space being restricted. The majority of the Commission consider it to be vital for countries wishing to exploit foreign investments as a part of their development strategy to retain the possibility to set requirements for international investors in areas such as local deliveries, local employment and technology transfers.

The distribution policy in the country receiving investments is also vital in relation to whether it contributes to the fight against poverty. There are a number of examples in countries that receive a high volume of foreign investments but where the revenues from these are concentrated on so few hands that they do not help the fight against poverty. Not only fiscal policy but also a society's degree of political and professional organisation is a determining factor for the distribution of wealth. A strong trade union is therefore of great importance to ensure that revenues are spread and spin-off effects occur, both for foreign investments and when a country gets increased export revenues. A high degree of unionisation is generally a prerequisite for an active distribution policy. This is vital to ensuring that revenues from foreign investments benefit the host country. A strong trade union movement means that the potential is greater for local employees securing decent wages, which in turn can create local economic spin-off effects. Additionally, the trade union movement is often a driving force for establishing a fiscal policy that can lay the foundation for welfare development and focus on health and education.

With the exception of Malin Stensønes, Kristian Norheim and Julie Christiansen, the Commission draws attention to the fact that according to the Bank of International Settlements, more than USD 1,900 billion is traded in the international foreign exchange market on a daily basis. Since the foreign exchange market was deregulated in the 1980s, the world has experienced more and greater foreign exchange crises, with the most serious of these being the Asian crisis. Unrestricted and short-term currency trading intensifies such crises and deprives the affected countries of the opportunity to protect their economy. The foreign exchange crises hit the poorest the hardest and have serious consequences for economic and social development. The Commission majority believes that such crises can be lessened by introducing a duty on currency trading, often referred to as the Tobin tax. The revenues from this taxation can also be used to provide stable and predictable financing for initiatives aimed at fighting poverty through the UN.

Commission member Kristian Norheim believes that economic freedom is a basic human right that must be respected in the same way as other human rights. The propagation of the market economy has been the source of the fastest growing reduction of poverty and famine that the world has ever seen. Since 1981, the share of the population living in absolute poverty in developing countries has fallen from 40 per cent to 21 per cent. Almost 500 million people have escaped from poverty during this time. This is the greatest reduction in poverty that the world has ever seen. During the past 30 years, chronic starvation has been halved, as has child labour. Since 1950, illiteracy has fallen from 70 per cent to 23 per cent and the infant mortality rate has fallen by two thirds. During the past 50 years, the material development has led to the world being populated by more than 3 billion more people living outside poverty. The world has never witnessed anything like this before. The UN development programme (UNDP) has demonstrated that the number of poor in the world has fallen more in the past 50 years than in the past 500 years put together. The experiences from the reconstruction in Eastern Europe show a clear correlation between consolidation of democracy and progress for the market. The EBRD (European Bank for Reconstruction and Development), which was established in order to support the new system in the east, has also highlighted this. The market also contributes to strengthening democracy as the market is vital to developing a robust «civil society», which in turn is a prerequisite for democracy. Ownership is the foundation of such a structure. The Financial Times editor, Martin Wolf, points out that the most important difference between the societies that have become affluent and those that have not, was probably the potential the people in the first society had to enter into long-term and contractual agreements. This requires a high degree of faith among the people, and not least in relation to the political authorities. People will only enter into such agreements if they know that there is no great risk of the fruits of their labour being taken from them by the political authorities, or by other individuals because the political authorities cannot guarantee protection against intervention or injustice. Affluent societies have become affluent for the precise reason that freedom is guaranteed, and it is guaranteed based on the laws of its society. The developing countries are unfortunately heavily characterised by the opposite. As a strong defender of human rights, Norway should also therefore take a lead role with regard to actively working for and supporting economic freedom on a global basis, not least for the poorest in the world, in a human rights perspective. Norway cannot therefore support initiatives that are aimed at strengthening the political authorities' policy space where this has negative consequences on the individual citizen's economic space. Norway should therefore, in a human rights perspective, support economic policy reforms and initiatives that make it easier for the poor to make use of their economic freedom, such as deregulation, debureaucratisation, tax reductions, strengthening of the private right of ownership regime and establishing a financial infrastructure.

5.2 The Norwegian Government's role as an investor and international political player

The Norwegian Government administers a number of funds with different mandates and objectives. Some are explicitly aimed at fighting poverty and others don't have this either in their mandate or as a secondary goal. The Government Pension Fund – Global is the largest fund, and mainly invests in listed companies in Western countries, with a mandate to ensure long-term returns for future generations. Norfund is the most development-oriented fund, and undertakes both project financing and fund investments to support sustainable industrial development in developing countries. The Norwegian Guarantee Institute for Export Credits (GIEK) facilitates investments and trade by providing credit and guarantees to Norwegian exporters wishing to establish business activity in developing countries. The Government has generally considerable potential influence on Norwegian direct investments abroad in its role as shareholder in some large Norwegian companies. The Government's involvement in international organisations and schemes is potentially and genuinely crucial to Norway's efforts to exercise influence on business development and fighting poverty in developing countries.

5.2.1 The Government Pension Fund – Global

In April 2008, the Government presented a white paper on the future management of the Government Pension Fund – Global (White paper no. 16). Central in the white paper were the goals that the fund shall be the world's best managed and follow the best international practice. According to the Ministry of Finance, this means that the fund should spread the risk further in order to improve the ratio between risk and return. The white paper suggested enabling investments in a further 18 emerging markets, including China and Russia. One of the motives was for a better dispersion of the fund's risk and to reflect the development in international financial markets. A proposal was also submitted to develop a portfolio with investments in property in the fund (up to 5 per cent), primarily business premises in OECD countries. It was also proposed that the ownership limit for investments in listed companies be increased from 5 to 10 per cent, without this changing the fund's role as financial investor. These are mainly changes that are not considered to affect poor countries.

The Government Pension Fund – Global regards the use of active ownership in companies as the most important instrument for facilitating various development goals. For companies in which the Government Pension Fund – Global has investments (more than 7,000 in 2007), the ethical standard shall be protected through Norges Bank's rights as a shareholder. One of the ways this is done is by voting at general meetings (38,862 votes in 4,202 general meetings in 2007), by informing the companies of the bank's principles for exercising ownership, direct company contact where there is reason to believe that the ethical principles are not being adhered to, and by cooperation with other institutional investors.[4] In this context, the UN's Global Compact and the OECD's guidelines for multi-national companies have been used as a basis. Norges Bank has indicated six focus areas up to 2010, and two of these focus on future social and environmental sustainability; children's rights within the value chain of multi-national companies, and how companies act towards national and supranational authorities on questions related to long-term environmental changes. The other four focus areas deal with ownership rights in the company's management. According to its annual report, Norges Bank contacted more than 90 companies in 2007, and these were selected based on six criteria. Four of these relate to basic financial ownership interests, and the other two entail a focus on eradicating child labour and strengthening children's rights, and an assessment of how companies involve the authorities on questions relating to long-term environmental changes, and especially climate change.

4. See «Prinsipper for eierskapsutøvelse og ivaretakelse av finansielle verdier», and the National Budget 2008 for more on ethics in the fund management: http://www.regjeringen.no/nb/dep/fin/dok/regpubl/stmeld/2007-2008/Stmeld-nr-1-2007-2008-/5.html?id=482995&epslanguage=NO.

5.2.2 More poverty-oriented management of the oil resources

Although it can be difficult for the Government Pension Fund – Global to invest in developing countries, it can invest in companies that operate in developing countries and ensure that these contribute to development in these locations. There are three main instruments that investment managers can use to affect the geographic and quality-related distribution of investments; active exercising of ownership, negative screening and positive screening. By using these, there will often, but not always, be a trade-off between new investment priorities, risk and return. Both public and private investment managers have shown that responsible investment activity is compatible with commercial sustainability. Using instruments to increase the development effect of investments will not necessarily therefore conflict with the return targets of the Government Pension Fund – Global.

Investment funds can also try to select the best companies. Positive screening of this nature can, for instance, be done with regard to companies that made a special contribution to sustainable development, such as in the fields of clean energy and microfinancing. In principle, positive screening can also be used to help reduce poverty. No positive screening has been introduced to date in the Government Pension Fund – Global, as it is argued that it can entail a higher investment risk. The most commonly used method is the «Best-in-Class» rankings, which identify the most responsible companies within various sectors whereby the risk profile in the fund is maintained without increasing investments in some sectors at the expense of others. Another method is to select the best companies according to a ranking based on special criteria such as the management of natural resources. A third method is to focus on sectors that produce public goods and thereby create something positive for society regardless of what else they do. Various ethical-oriented funds have done this in order to increase the share of companies that are involved in clean energy and energy efficiency, recirculation and recycling, education and health and public transport.

This instrument is particularly used to prevent deterioration of the climate. California Public Employees Retirement System (CalPERS) uses positive screening to direct its involvement in energy companies in a more environmentally friendly direction by including more companies that develop and sell renewable energy and green technology. The Dutch pension funds ABP and

PGGM have invested in a climate fund administered by Climate Change Capital in London, which invests in projects in developing countries that reduce climate emissions.

5.2.3 Exercising ownership in public companies

The Norwegian Government is a significant player in Norwegian industry. It is a major and controlling owner in the three largest companies in Norway and also the sixth largest companies listed on the stock exchange – StatoilHydro, Telenor (telephone and multimedia services), DnB NOR (banking and financial services) and Yara (fertilizer and other chemical products). The total value of Government ownership in industry is 28 per cent of the share values on the Oslo Stock Exchange. The Government also has significant values in unlisted companies. The ministries manage ownership interests in 80 companies, with more than 280,000 employees.[5] Norwegian government-owned companies such as StatoilHydro and Statkraft (energy production) are for the most part involved in the extraction of natural resources. The exceptions are Telenor, which is based on the export of technology where the investments are more driven by market access than access to natural resources, and DnB Nor. There are also a number of smaller Norwegian companies that have set-up operations in the least developed countries, but compared with other European countries, the number is low. One reason for this is that Norwegian industry has the most expertise and resources within sectors that carry a high political risk in developing countries, such as petroleum extraction and hydropower. Since the so-called mixed credits for developing countries where contracts earmarked for Norwegian companies were stepped down and reorganised, they do not have the same risk profile as before.

One premise for the Statoil privatisation in 2001 was that the company should have a national base, with the head office, research and strategic decision-making in Norway. In addition to this, a partly-privatised Statoil should have commercial freedom. Such guides are not unusual in cases where the Government remains a significant shareholder after privatisation. The White Paper to the Storting on Government ownership (no. 13 (2006–2007)) describes the principles used as a basis to exercise «active and long-term ownership». One of these is that exercising ownership shall be practiced in accordance with the OECD's guidelines on ownership. In addition, a long-term perspective entails considerations to the environment, adaptations, diversity, ethics, research and development being included in the assessments of the boards. The ownership report also states that government-owned companies shall be among the best with regard to corporate social responsibility. However, a number of cases have put the exercising of ownership in government-owned companies on the agenda in recent years. The corruption scandal that hit Statoil's activity in Iran, where the company was found guilty of bribing an Iranian civil servant, is perhaps the most serious of these. In the end, the company had to pay NOK 120 million in fines and costs after admitting guilt. The Telenor-Grameen Phone case also shows what other problems government-owned companies operating in developing countries may face. In May 2008, it became known that some of Grameen Phone's subcontractors that produce telecom masts for the mobile network in Bangladesh employed local labour under shameful working conditions, clearly breaching safety regulations. Telenor claims to have given the relevant steelworkers HSE (health, safety and environment) training, but the disclosure shows that the company's internal guidelines were not adhered to.

Considerations of the Commission

The Norwegian Government does not appear to have an overarching policy with clear guidelines and requirements on management foundation or effective routines for how government-owned companies should take ethical considerations in its business activity in developing countries. Typical policy instruments in Norway are licensing, public procurement rules and taxation. However, such frameworks are often extremely lacking and insufficient to protect crucial social considerations beyond Norway's borders. The Policy Coherence Commission's view is that, through its ownership in companies with activity in developing countries, the Norwegian Government must take special responsibility for the activity not bringing about negative consequences for the country in which it operates. As owner, the Government should have a clear policy and use its ownership interests actively to facilitate socially responsible conduct for companies with activity in developing countries.

The primary aim of the Government Pension Fund – Global is to safeguard the national pension basis for future generations. The Commission supports aiming the geographic reference portfolio

5. http://www.regjeringen.no/nb/dep/nhd/tema/eierskap/statlig-eierskap.html?id=382852

more towards emerging markets as this helps to increase the capital flows to developing countries. However, the Commission believes that the change in the geographic reference portfolio combined with the proposal to increase the ownership limit for investments in listed companies from 5 to 10 per cent requires a strengthening of the capacity of active exercising of ownership. The fund has considerable market power, and has already made its mark in the international capital markets. As a financial investor, the Government Pension Fund – Global can, upon exercising ownership, make a positive contribution to important changes in areas such as the environment, human rights, transparency and the fight against corruption. The Commission further believes it is important that the Government Pension Fund – Global is used more actively to facilitate sustainable development by means of positive screening, among other things. The fact that the revenues from the oil activity are generated from non-renewable sources and contribute to global warming is also relevant in this context.

Commission member Kristian Norheim notes that free trade and market economies through the years have helped hundreds of millions of people escape poverty. Rigid political governance has, without exception, led to the opposite. Poor countries need foreign investment. On the whole, investments contribute to positive spin-off effects such as the transfer of knowledge and expertise, jobs and the opening of market access, and one of the goals of the Norwegian authorities should therefore be to help increase foreign investment in poor countries. The problem is not that there are too many investments in developing countries. There are not enough. Norway should therefore help to make more capital available. By introducing and practicing ethical guidelines that are too rigid and selective, one runs the risk both of overly politicizing investments and of getting less investments in poor countries. Such an outcome would not make a positive contribution to lifting more people out of poverty, but would instead mean less growth and prosperity in the affected countries. There is therefore reason to warn against what has been referred to as «ethical imperialism», which results in companies that must make their decisions in light of their global responsibility being instructed to follow the west's subjective and selective view of what are ethically superior guidelines. Very few believe that child labour, breaches of basic human rights in employment, slave contracts in relation to the working environment and wage terms are acceptable, but neither is this a correct description of the massive majority of foreign companies' investments and presence in poor countries, which have poorly developed judicial institutions to react against such breaches. Improvements in the working environment and working conditions follow a country's level of prosperity and institutional development level. The investments should not, of course, directly or indirectly contribute to systematic breaches of human rights, and should not be alms, but be managed according to healthy business principles, even although the risk exposure will be higher and the return less than on investments in developed countries in the short term.

5.3 Government support for investment, guarantees and exports to developing countries

Whether export subsidies in the OECD countries are compatible with the aim of fighting poverty in developing countries has been discussed internationally for decades. Because such benefits have, according to the OECD, shown to increase project costs by up to 25 per cent, the OECD has recommended that aid-financed business schemes are untied so that companies in the donor countries are not advantaged at the expense of others, particularly in the South. Untying entails contracts being put out to open tender. The OECD's recommendation reflects a general trend in the global development policy, where the authorities, business sector and local population in the recipient countries shall have more influence and more latitude to shape the country's own development.

Norway untied its private sector development schemes in 2002. This also included Norfund. However, the decision has been met with some criticism from Norwegian industry and GIEK because untied credits reduce Norwegian companies' chances of winning contracts if they are not competitive. In such cases, they therefore lose crucial incentives to invest in developing countries. This shows what conflicts can arise between the aim of stimulating Norwegian exports and the desire to facilitate equal competition terms and reduce the costs for the recipient countries.

5.3.1 Norwegian industry and the role of Norwegian authorities

A long-standing political goal has been to increase the cooperation between the Government and Norwegian companies operating abroad. Together with Norad, Norfund created an information centre in

2007 in order to give Norwegian companies easier access to advice and guidance on financial support and the financing of activities in poor countries. The Information Office for Private Sector Development in the South aims to inform companies of support schemes for business development in developing countries, and provide advice and guidance on business plans and other preliminary work.

There are currently various support schemes for Norwegian companies wishing to invest in developing countries. In addition to Norfund and GIEK, as referred to below, Norad has a dedicated department for private sector investments. FK Norway (The Norwegian Peace Corps), under the Ministry of Foreign Affairs, cooperates with organisations and companies that run partnership and exchange programmes for experts. According to the frameworks, at least half of the funds must go to the least developed countries. Innovation Norway helps Norwegian companies find good partners in developing countries, and also offers expertise on various markets. It also focuses on promoting Norwegian deliveries for relief and disaster projects.

Investinor AS was founded in February 2008 as a subsidiary of Innovation Norway. The purpose is to contribute to investments in forward-looking sectors in which Norway has special advantages. Norfund's and Norad's Information Office for Private Sector Development also offers guidance on how Norwegian companies can work with international financial institutions such as the World Bank and regional development banks. A great deal of expertise and experience is required to take part in international tender rounds and model projects in accordance with the specified criteria. The Information Office can also provide advice on this.

Despite a number of support schemes being in existence, Norwegian private sector investments in developing countries, particularly in the poorest countries, have nevertheless not increased much in recent years. Industry representatives claim regularly that the general grants for the schemes are not sufficient or should be adjusted so that the support to individual projects is increased. Others believe that support schemes and advice should be specialised, in accordance with possibilities and challenges within various sectors. Reference is also made to the fact that the embassies in the poorest countries, where support from the Norwegian authorities is most crucial, do not provide expertise on business development to a sufficient degree.

Demand by the developing countries for foreign investment in the energy sector and telecommunications has increased in recent times, and

Figure 5.5 «Investments can contribute to economic growth and social development»

Norwegian companies have proven to be competitive within these sectors. The development of the energy sector is a field that the Government has also supported via aid-financed investment and guarantee schemes. Investments in energy infrastructure are absolutely vital for creating growth in developing countries. However, at the same time, they also create challenges in so far as the energy prices paid by people who already have limited ability to pay often increase considerably. Additionally, manmade dams often lead to extensive local damage to the environment and inhabitants alongside riverbanks being forced to leave. An oil pipe in the tropics can have a similar effect on an indigenous population and increase the risk of a serious oil spill. It is therefore vital that Norwegian players are responsible and that the companies comply with international standards for responsible business management.

5.3.2 Guarantee Institute for Export Credit (GIEK)

GIEK's mandate is to facilitate Norwegian exports and foreign investments through financial guarantees. GIEK and other guarantee institutes enable export to and investments in markets that are perceived to be very risky, including in developing countries. Since the guarantee scheme is governed by Norwegian exports, GIEK's geographic and sector-related focus will have to reflect the strategic interests of the Norwegian export sector. The annual report from 2006 shows that the Norwegian maritime industry accounts for 2/3 of the demand for guarantees through GIEK's general schemes, compared with 50 per cent a few years ago.

An increase of the investment volume, however, is not necessarily synonymous with a reduction of poverty. In order for guaranteed investments to benefit the poor and not have a negative effect on the environment, it is important for GIEK to have effective internal systems to quality assure investment decisions, and follow up the projects after initiation. Guidelines on how guarantee institutes ensure they do not support projects and transactions that are corrupt, harm the environment, cultural heritage or economic basis for the local population, or which incur debt for the recipient state that it will find difficult to honour, are extremely important.

The OECD has established rules in this area, which bind all of the OECD countries' guarantee institutes. These rules specify requirements and reporting obligations provided for in agreements that are subject to ongoing evaluation and follow-up. Norway has been a driving force in establish-

Box 5.2 The Ship Export Campaign

The shipbuilding industry in Norway was in a deep recession in 1976, and many of the 50,000 jobs in the sector were in jeopardy. The authorities' solution was a campaign for the export of ships and drilling rigs, known as the Ship Export Campaign. The then Norwegian Labour Party was responsible, but all Storting resolutions in connection with the campaign were unanimous. The idea was conceived to facilitate the ordering of Norwegian ships from foreign buyers, and particularly buyers from developing countries. The ships were therefore offered together with a loan. The repayment period was generally 15 years, of which the first three were interest free, and the interest rate was approximately 5 per cent.

The sales contract had to be approved by a number of bodies in order to ensure that the intention of the Ship Export Campaign was upheld. The Guarantee Institute for Export Credit (GIEK) and the Ministry of Trade and Industry assessed the risk, guarantee and payment terms, Norad checked the development-related effects of the agreement and the specially-appointed Ship Export Committee also had to approve everything. The campaign was launched at a time when other countries were also trying to increase ship exports. On this basis, beating the competition was considered to be crucial, and the Storting therefore decided that the condition that the projects had to be approved by Norad and be regarded as promoting development should be dropped.

During the campaign, a total of 156 ships were produced by 36 shipyards in Norway. The recipients of the ships were private shipowners and authorities from 23 countries in the South. Only two of these countries, Turkey and India, have adhered to the payment schedule. In the political showdown after the Ship Export Committee at the end of the 1980s, the then Brudtland Government wrote that the guarantee scheme would thereafter be a unilateral support initiative aimed at the shipbuilding industry. When awarding contracts, the employment situation at each individual shipyard was given more consideration than the shipyards' expertise. Additionally, not many private shipowners managed to pay back the loans, which under the applicable terms transferred debt to the state in the recipient countries. GIEK, which had guaranteed the export, ended up paying for most of the ships. The developing countries' liabilities were never written off, despite GIEK receiving money from the Government budget.

Following the Ship Export Campaign, seven countries had a total debt of NOK 2.9 billion, which made up 2/3 of the developing countries' total debt to Norway. In October 2006, the Government decided to cancel the debt to Ecuador, Egypt, Jamaica, Peru and Sierra Leone, which had a total of NOK 520 million national debt. This was a unilateral initiative carried out outside the guidelines of the Paris Club, and with no conditions, where Norway accepted joint responsibility for the debt's history. The remaining countries, Burma and Sudan, with NOK 1,580 million and NOK 770 million debt respectively, will be striked off when they qualify for international operations for debt relief.

ing these rules through the Ministry of Trade and Industry's work on the relevant OECD committees. A current challenge is that new countries that are not members of the OECD, have emerged as capital goods exporters. The OECD aims to involve such countries, and China, India, Brazil and South Africa now participate as observers on the committees.

Through sustainable lending, the countries undertake to ensure that due consideration is given to the recipient countries' development plans and budgets, and that recommendations from the World Bank with regard to how much borrowings the states can handle are adhered to. Dedicated communication channels have been set up to consult and inform the World Bank. Separate consultations already exist for controlling the use of aid in commercial projects in order to prevent the aid from being used to facilitate export.

5.3.3 Norfund

The Government's investment fund for business activity in developing countries (Norfund) was founded in 1997 and is under the Ministry of Foreign Affairs. The purpose of Norfund is to aid the development of sustainable business activity in developing countries by investing equity and other risk capital such as loans and guarantees. According to its mandate, the fund primarily contributes to development by means of profitable investments in private businesses in developing countries. In this way, they are supporting business development that due to the high risk would not have been initiated in these countries. The fund can support projects in countries that OECD classifies as lower middle-income countries, and countries with a lower income per capita than these. Although Norfund's investments are market-oriented and aimed at stimulating investments by Norwegian businesses, the fund is also an integrated part of Norwegian development aid activity.

Norfund's activity is divided into four areas: direct investments, investments in financial institutions, investments in local and regional funds and investments in renewable energy.

To date, Norfund has invested NOK 281 million in 12 individual companies (37 per cent in the least developed countries) where the fund exercises active ownership. This applies to both new startups and the expansion of existing operations. In terms of the value of Norfund's investments, direct investments correspond to 8 per cent of its total portfolio. Included here is the investment in Afrinord Hotels Investment, a Nordic initiative that arranges capital for hotel projects in Africa, and Nicafish, a company in Nicaragua with Norwegian origins, which buys, catches and processes fish for export to the USA.

Norfund's investments in financial institutions and microfinance institutions are aimed at procuring capital for individuals and small and medium-sized companies, and developing capital markets in developing countries. By the end of 2007, the total value of these investments was NOK 267 million, of which 54 per cent went to the least developed countries. Investments in financial institutions make up 7 per cent of Norfund's total portfolio. Examples include Banco Terra, a bank in Mozambique that offers commercial banking services to the agriculture sector in the country, and LAAD, a financial institution aimed at farming in Latin America.

Norfund also invests in local and regional funds, often together with other public, bilateral or multilateral financial institutions. At the end of 2007, investments of this nature totalled NOK 1.060 million, which corresponds to around 29 per cent of the value of Norfund's investments. Of this, 13 per cent went to the least developed countries. The largest of these investments is Aureos Capital, a private funds management company that was founded by Norfund and the British CDC in 2001. Aureos manages funds aimed at regions or sectors, such as Aureos Central America Fund, Aureos Southern Africa Fund and Aureos Infrastructure Fund. Additionally, Norfund has played a key role in setting up the Norwegian Microfinance Initiative (NMI), a fund with private and public partners who will finance existing and new microfinance institutions in developing countries.

Norfund also supports the development of renewable energy, mainly in the form of hydropower projects through its holding in SN Power, but also other renewable energy sources through its role as lender to the power investment company E+Co's project in Nepal, E+Co being a leading investor in small and medium-sized companies in developing countries. Investments through SN Power totalled NOK 2.052 million in 2007, which corresponds to 56 per cent of Norfund's total investments in value (more about SN Power in chapter 7). Norfund's investments through SN Power have gone to seven different projects in Latin America and Asia, including one in one of the least developed countries (the Khimti project in Nepal).

Norfund published its first development report in 2008. This is part of Norfund's annual dissemination of information to the public sector on the development effects of the fund's investments. The report was launched after a period of criticism from various quarters on the development effects of Norfund's investments. According to the report, contributions to increased economic growth are the most important development effect of Norfund's activity, and sustainable profitability is also therefore a determining factor in the choice of projects. The report notes, however, the risk of short-term financial interests conflicting with broader public interests. For this reason, attempts are made to identify partners with high return targets as well as a goal to create development.

According to the report, conditions that are regarded as material to development play a key part of all project evaluations: jobs, tax revenues to the host country, contributions to business development, training and technology transfers, quality of business management, anti-corruption efforts, effects on women's status and social and environmental standards. Of these, only employment (both sexes) and tax revenues are quantitative and can be measured/aggregated. In relation to the collaboration with SN Power, the report provides data on electricity production, electricity supplies and CO_2 reductions that result from the individual projects. The report also gives details of employment effects and the share of new jobs that women benefit from. Norfund itself says that accurate reporting is a challenge since many of the conditions they are reporting on relate to qualitative conditions.

At the end of 2007, 24 per cent of Norfund's investments are based on agreements entered into in the least developed countries, a share that equates to 16 per cent if SN Power is included. However, the share appears to be increasing, since a total of 47 per cent of the fund's principle decisions (excluding energy) on investments in 2007 apply to the least developed countries. Norfund has an express goal of increasing the share of investments in the least developed countries. SN Power and NMI have their own geographic priorities.

Norfund currently invests in microfinance funds both in Latin America and Africa, including Kenya, Mozambique and Uganda. In May 2007, a working group was appointed to investigate the possibility for establishing a Norwegian public/private microfinance fund. This resulted in the Norwegian Microfinance Initiative (NMI) being established in June 2008 in collaboration between DnB NOR, Ferd (finance), Storebrand (insurance), KLP (pension fund), Norfund and the Ministry of Foreign Affairs. The fund has a capital of NOK 600 million.

Considerations of the Commission

Based on the fact there is a lack of capital in countries with poorly-developed markets and insufficient framework conditions, the Commission believes it is important to consider how the authorities in rich countries can stimulate increased investments in the poorest countries. Due to the requirements of the Government Pension Fund – Global for security and return, the degree to which Norway's surplus income from the petroleum activities contributes to development in poor countries is limited. The Commission views this as a challenge as Norway should use more of the oil profit for investments and business development in poor countries. The Commission notes that Norfund in its new strategy facilitates the strengthening of the company's ability to make profitable investments in poor countries with particular focus on the poorest, least developed countries and on Sub-Saharan Africa. The focus is on areas where Norway can have specific advantages in order to succeed and where Norfund as an organisation has or can establish relevant expertise. Norfund has also established a separate borrowing window for the least developed countries, with greater risk-taking. Priority has also been given to developing measurement systems as a basis for evaluating the investments along a number of development dimensions. However, the Commission with the exception of Kristian Norheim, would like to point out that there is reason to question the development effect of takeovers of existing power plants and the correctness of using aid money for this. The Commission believes that Norfund has formed the basis for an increase of the investments in both the least developed countries and Africa more generally. The Commission recommends a considerable increase of funds for business development and investments in low-income countries, with the focus on Africa and the least developed countries.

Commission member Camilla Stang disqualified herself in relation to questions connected to Norfund and GIEK, and will not be giving her opinion of the Commission's considerations in this context.

Developing more projects in the least developed countries, stronger exercising of ownership and closer follow-up are ambitious and important goals but also very resource intensive. In the least developed countries, direct investments are the most realistic investment alternative. At the same time, direct investments are associated with a higher investment risk than fund investments whereby the scope of direct investments in places other than the least developed countries must be limited in order for the fund's total activity to have an acceptable risk profile. The goal of increasing the share of investments in the least developed countries may affect Norfund's total returns and risk profile. The balance between these goals is therefore important. Expertise is vital to ensuring that the projects have a positive development effect, and the Commission believes it is important that Norfund strengthens the capacity to safeguard the development effect of the investments.

GIEK's main objective is to facilitate the export of Norwegian goods, services and investments. GIEK is therefore a key instrument for providing companies in Norway with more opportunities to invest in developing countries. The Commission notes that various representatives have called for better framework conditions to entice Norwegian companies into investing in poor countries. Simultaneous to this, the importance of effective internal systems for quality assurance of projects needs to be highlighted. Where debtors in a developing country are in default of servicing their loans, it is often the Government that takes over the debt burden. It is only within the developing country scheme that NORAD evaluates the development-promoting effect of the projects. The Commission therefore believes it is relevant to consider more instruments in order to improve the quality assurance of Norwegian export support. For instance, export guarantees in the Netherlands are dependent on how the companies safeguard environmental considerations in their investments, and tax benefits are also applied to investments that safeguard social considerations and the environmental friendliness of the projects.

Norwegian embassies in developing countries possess crucial knowledge on the conditions in various countries and also have a dialogue with authorities that the business sector could make use of during a set-up phase. Discussions that the Policy Coherence Commission has had with the business sector, however, give reason to believe that the embassies' routines are too inflexible to provide sufficient and important knowledge of the conditions in the country companies need prior to and during a set-up phase. In addition, the Commission is under the impression that support for business development has been given lower priority in recent times in place of other policy areas. The Commission also has the impression that the Norwegian diplomatic and consular system abroad with associated organisations could benefit from more interaction with the business sector in order to better understand each other's possibilities and limitations.

5.4 Bilateral investment agreements

Bilateral investment agreements define the rights and obligations of foreign investors. There are currently more than 2,500 such agreements in the world. In many countries, investors from different countries had various preferences, which has led to a fragmented set of rules. The main purpose of capital-exporting countries entering into investment agreements is to protect their own private sector investments abroad, particularly in countries where the political and economic situation is unstable. It is also therefore standard to add a clause stating that disputes between states and investors shall be resolved within the World Bank's dispute resolution scheme (ICSID), i.e. outside the host country's own legal system. Additionally, attempts are normally made to avoid that performance requirements are imposed upon foreign companies that national companies are protected from. Such performance requirements include, but are not limited to, requirements on export shares, repurchase agreements and requirements for the use of national input factors in production, requirements on national ownership interests in investments, requirements for technology transfers, requirements for the reinvestment of profit, requirements for a national workforce and/or board participation.

The dramatic increase in the number of investment agreements is partly due to extreme difficulties in achieving a binding multilateral collaboration on investments due to disagreements between capital-exporting and capital-importing countries. The OECD countries have made several attempts to create a multilateral investment agreement. First, by proposing investments as a topic for negotiation in the WTO, then by attempting to establish the MAI agreement (Multilateral Agreement on Investment in 1997) under the direction of the OECD and then again in the WTO in 2003/4. The resistance from developing countries and civil society organisations, however, has been considerable, and none of the attempts have been successful. The WTO's existing investment statutory framework (TRIMs) is considered to give much poorer protection for foreign investors than many bilateral investment agreements.

The power relationship between capital-exporting and capital-importing countries is not necessarily equal, and agreements between such parties can restrict the latter's room to manoeuvre and

Box 5.3 Bilateral Investment Agreements

«I was informed that the context of the Bilateral Investment Treaty (BIT) was the need to maintain Norwegian (and EFTA) industrial and commercial competitiveness in relation to what the EU receives or perceived to receive from the developing countries. If this is so, then this should be clearly stated, and understood as part of Norway's commercial policy and must not be «marketed» as its «development» policy. From a developmental perspective, the BIT will have serious negative consequences for countries in the South that would sign the Norwegian BIT.»

Yash Tandon
Executive Director,
South Centre

undermine the competitiveness of national companies whereby foreign companies get the same rights to operate a business as the national companies as well as better protection against the loss of values.

Research into whether investment agreements help developing countries and transitional economies to attract the right quantity and quality of investments has yielded ambiguous results. Studies carried out by the World Bank,[6] among others, cast doubt on whether such agreements have any effect at all on the level of investment. Other studies show that in a best case scenario the correlation is positive for some agreements under certain conditions, but that bilateral investment agreements tend to benefit foreign investors compared with national investors[7]. Studies by UNCTAD, among others, show that institutional factors such as market size, economic growth, access to skilled labour, the quality of the legal system, transparency and stability are all factors that have a greater bearing on companies' investment decisions than whether the country has entered into bilateral investment agreements.

To date, Norway has entered into 14 bilateral investment agreements. In addition, the trade agreement with Singapore from 2002 included provisions on investment protection. Norway has not entered into any new agreements of this type since the mid 1990s. However, the Ministry of Trade and Industry submitted a proposal in January 2008 for a framework for entering into investment agreements. The proposal claimed that the interests of developing countries are protected.[8] However, in line with what has previously been stated, the document recognises that conflicts can arise between investment protection for Norwegian investors and the policy space of national authorities. In relation to environmental problems, it is claimed that the agreements can be formulated in ways that do not weaken the countries' ability and capacity to implement environmental regulations. In order to ensure that the investments benefit the host country, it is proposed that the agreements shall make it impossible for the host country to reduce important environmental standards in order to attract investments and that they shall refer to fundamental principles for corporate social responsibility.

Considerations of the Commission

Most countries are sceptical to giving the same rights to multinational companies within their borders as those they try to secure for their companies beyond the country's borders. This inherent asymmetry hits poor countries the hardest. The Commission, with the exeption of Kristian Norheim who does not agree with the views put forward here, is concerned about the tendency to impair national authorities' opportunities to ensure that the investments they receive serve national development policy goals. One indication of this is that parallel to the increase in the number of bilateral investment agreements, an increase has also taken place in the number of dispute resolution cases (see figure 5.6). The dispute resolution clauses are probably the most controversial aspect of these agreements. Experiences from the financial crisis in Argentina are that when such crises occur, foreign investors, as opposed to national companies, are amazingly well-equipped to get their money out. The population of Argentina was very badly affected by the initiatives aimed at the financial crisis. National companies also made

6. «Do Bilateral Investment Treaties Attract Foreign Direct Investment?» World Bank Research Department 2003,: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=636541)
7. Including the Harvard researcher Dani Rodrik in the article «Some Investors are more Equal than others» in his blog: http://rodrik.typepad.com/dani_rodriks_weblog/2008/03/some-investors.html.
8. Consultation - Model for Investment agreements (Norwegian only), Ministry of Trade and Industry, 8 January 2008. http://www.regjeringen.no/nb/dep/nhd/dok/Horinger/Horingsdokumenter/2008/Horing--Modell-for-investeringsavtaler/-4.html?id=496026

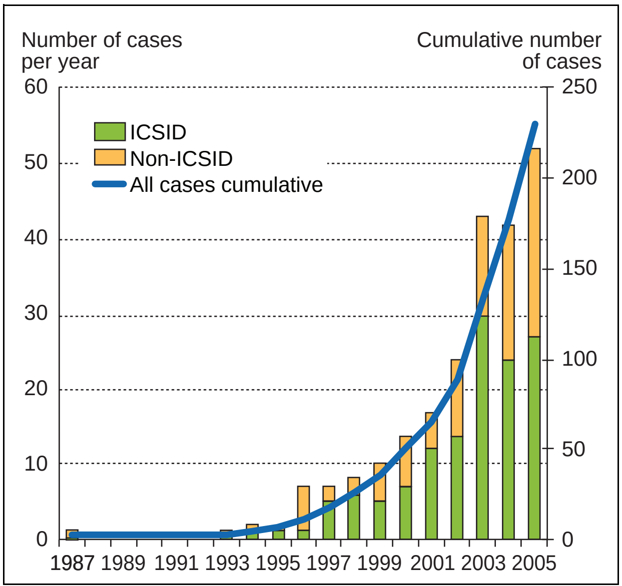


Figure 5.6 Investor-state-dispute resolutions. No. of cases per annum and aggregate cases

Source: UNCTAD, 2005.

huge losses, while many foreign investors, including ENRON, won their cases in ICSID. In one case, the American energy group CMS was awarded compensation of USD 133 million after ICSID concluded that the authorities could have initiated measures that would have limited the losses for the group.

With the exception of Kristian Norheim, Malin Stensønes and Julie Christiansen, the Commission also believes that including performance requirements in bilateral investment agreements weakens the policy instruments available for the authorities in developing countries for ensuring that foreign investments make a positive contribution to development. Such performance requirements often set limits for what the authorities can require from foreign companies in relation to requirements for the export share, repurchase agreements, national ownership interests in investments, technology transfers, the reinvestment of profit, as well as requirements for the use of national input factors in the production.

5.5 Corporate social responsibility in developing countries

The term corporate social responsibility (CSR) is often used in different contexts, but the meaning of the term in this report relates to how companies adapt their own values and behaviour to the expectations of different interested parties, such as clients, investors, employees, suppliers, the local community, the authorities, interest groups and society at large.

Corporate social responsibility thus also refers to respect for international standards and conventions in a number of areas such as:

- *Human rights* with a special focus on civil and political rights; torture, inhumane or degrading treatment; the rights of children and indigenous populations; prohibition of discrimination etc.
- *Workers' rights* with a special focus on the ILO's core conventions that ratify the basic right to unions, collective bargaining and the abolition of forced labour, discrimination and prohibition against child labour[9]
- Conflict sensitivity
- The environment
- Corruption.

The debate on what responsibility the private sector has in society, especially when operating in developing countries, has become considerably broader in recent years. Nowadays, there are few multinational companies that do not have a department for social responsibility and have not developed guidelines and programmes for the different aspects of their social responsibility. Increased focus on corporate social responsibility can help to improve the quality and development effect of direct foreign investments in developing countries.

The authorities can play a key role in coordinating initiatives for social responsibility together with the private sector. Companies are often uncertain as to what ethical obligations they have or how these should be implemented. Requirements from the private sector, particularly multinational companies, to coordinate national regulations on social responsibility have also given international organisations a key role to play.

A central problem is how far voluntary initiatives can help pull the private sector in a more environmentally and development-friendly direction, and whether requirements for corporate social responsibility should to a greater extent be conveyed in legislation and provisions. Disagreement relates to the effectiveness of voluntary frameworks, what type of guidelines the authorities should provide and how strong they should be, and in what areas. In the environmental field, the introduction of for-

9. ILO's Declaration on Fundamental Principles and Rights at Work (1998) requires its member states to respect and facilitate certain main principles even although they have not ratified the conventions applied. The main principles, which are expressed in the core conventions, are also the core elements of the ILO's Decent Work Campaign.

mal laws and rules has undoubtedly played a key role in strengthening responsible business activity. Experience from developing countries with good governance demonstrates that it is often necessary to develop national public institutions in order for the companies to initiate and follow up measures to limit negative social and environmental aspects of their activity. The major cuts in urban air pollution and improvements in working conditions would, for example, be difficult to achieve without a stringent set of rules by the authorities.

Voluntary initiatives can give the private sector the necessary flexibility to introduce principles and standards in very different contexts. Such initiatives also make the most of the private sector's own creativity and resources to support good causes. They can contribute to the exchange of skills-building and opinions, lead to positive competition between companies and encourage them to follow standards beyond the statutory requirements. They also form the basis for a broader and deeper dialogue between the private sector, the authorities and the civil society, and throw light on how the authorities can play a constructive role.

Laws and regulations with legally binding obligations can, however, be necessary when voluntary initiatives and discussions on corporate social responsibility are not part of the core activity of the companies, or when social responsibility initiatives are developed with the companies' own commercial interests as a premise, and not in accordance with society's values and priorities. In addition, it is sometimes the case that the requirements are set too low in relation to what is generally regarded as ethically responsible and sustainable business activity.

5.5.1 International and national schemes

The *UN's Global Compact* is a voluntary value-based initiative that connects the private sector with various UN organisations, civil society organisations and authorities. The most important goals are laid down in ten principles, which deal with respect for human rights, workers' rights, the environment and corruption. The scheme focuses on dialogue and the private sector is bound by *intentions* of good behaviour more than actual conduct.[10] In 2007, around 5,000 companies had endorsed the intentions in the principles that form the basis of the Global Compact.

The *OECD's guidelines for multinational companies* are an international framework for multinational corporate social responsibility[11] and the only provision that imposes certain obligations on states. The guidelines instruct Governments that have endorsed the guidelines to create a National Contact Point (NCP), i.e. national complaint schemes. Through the NCPs, complaints can be lodged against companies that have breached the guidelines and which can then be asked to provide the NCP with further details concerning the circumstances of the complaint. The wording of the OECD's guidelines is fairly general, which has resulted in few complaints and thereby relatively little demonstrable change in companies' practice. The limitations in the guidelines in relation to affecting companies' behaviour are further enforced by the fact they are guidelines and not a law: adhering to the guidelines is voluntary for companies and decisions of the NCPs cannot be legally enforced[12]. Consequently, the guidelines do not impose any explicit responsibility on the companies. At the same time, any negative publicity as a result of treatment in the NCPs will in itself often make companies more willing to make changes.[13]

It is perhaps within the reporting field that international standards for corporate social responsibility have developed the most. The *Global Reporting Initiative (GRI)* is a network for companies, the trade union movement and organisations that, among other things, have developed a common template for reporting that puts documentation from companies into a system, improves the quality and makes it more comparable. Reporting in accordance with GRI's guidelines meets the reporting requirements in Global Compact, and GRI is working closely with other initiatives and the UN's Environmental Programme.

With regard to the requirement for transparency and control, corruption has been a particularly important topic internationally. In 1999, Global Witness published a report on the close connections between oil and banking activity and the plundering of state funds in Angola. The report mobilised a number of organisations that formed a network and set requirements for *Publish What you Pay*. The British Government established *The*

10. No companies are excluded from the UN's Global Compact, despite many companies behaving in a way that breaks with the objectives of the organisation.

11. http://www.regjeringen.no/nb/dep/ud/dok/veiledninger/2004/Informasjonsbrosjyre-om-OECDs-retningslinjer-forflernasjonale-selskaper.html?id=88103
12. http://www.oecdwatch.org/
13. An evaluation of the OECD's guidelines shows that there are relatively few cases that have been dealt with by the NCPs, but those that have been dealt with have often resulted in changes in the companies' actual conduct.

Extractive Industries Transparency Initiative (EITI), which strives for greater transparency in economic conditions surrounding the extraction of natural resources. The UN also published the Business Guide for Conflict Impact Assessment and Risk Management (2002), and a number of expert groups have subsequently been appointed to assess the private sector's role in various conflict areas.

All of the international initiatives described above are on a voluntary basis for the private sector. The OECD's guidelines constitute the most binding framework currently in existence, and put obligations on the member states, but not on industry. A number of international organisations and institutions have been working for an internationally binding framework that can ensure that the companies deal with the challenges they face in a responsible manner, at the same time protecting the environment and human rights in the local communities in which they operate.

At a national level, a trend can be seen where some countries have started incorporating the GRI template into a legally-binding set of rules. The audit of the UK's «Company Act» in 2006 resulted in a duty to report on environmental and social conditions being imposed on British companies, and tax incentives have been developed to facilitate these. France has a law (from 2001) that, among other things, instructs the companies to report on how their foreign subsidiaries live up to the ILO's core conventions, and listed companies must otherwise report on how they attend to environmental considerations, social considerations and the working environment, both in their operations in France and abroad. Sweden compelled government-owned companies to use the GRI template to report annually on their activity from 2009, and support is also given to information initiatives on corporate social responsibility abroad. Denmark prioritises information initiatives and research on the private sector's social responsibility and the benefits of sustainable operations. The EU Directive on Annual Accounts includes requirements on the reporting of sustainability. However, this applies almost exclusively to the external environment, and covers only large companies within the EU. The EU directive has, however, led to a number of countries introducing a duty to report in relation to the company's environmental and social responsibility as a part of the annual report. The OECD reports that at least ten countries are now applying their guidelines for multinational companies as a yardstick for companies that apply for export credits, investment guarantees and support for investment-promoting initiatives. South Africa is one of a few developing countries with a requirement for listed companies to report on social and environmental standards in accordance with GRI.

There are few legal requirements on Norwegian companies with regard to social responsibility. One exception is the statutory prohibition we have had since 2003 for Norwegian companies with regard to contributing to corruption. The companies are legally responsible in Norway for corruption carried out by its employees abroad, even if they are not aware of the prohibition. In addition to the prohibition against corruption, the authorities require companies, via the Limited Liability Companies Act and the Accounting Act, to publish the environmental consequences of the business man-

Box 5.4 Environmental reporting in Norway

In Norway, the Limited Liability Companies Act requires companies to report on all conditions that are important for judging the company's position and the result of the activity (§ 11-12). In addition, both the Limited Liability Companies Act and the Accounting Act say that annual reports shall report on whether the activity pollutes the external environment and whether measures have been implemented or are planned for counteracting such pollution. (§ 11-12, 5th paragraph of the Limited Liability Companies Act, §21a, 3rd paragraph of the Accounting Act).

A legal imposition on environmental reporting helps to ensure that the environment is dealt with at a high level in the company and that reports are made public. However, research carried out by Prosus has shown that these laws have not so far been an effective instrument for increasing the environmental reporting of Norwegian companies. Follow-ups have been lacking and enforcement by the authorities and requirements have not been precise enough.

It could be envisaged that the aforementioned acts also require Norwegian multinational companies to report regularly in the future on the environmental and social consequences of their activity abroad. The experiences from the environmental reporting requirement mean that a statutory provision of this nature should be precisely defined and enforced by the authorities in order to be effective.

agement and what initiatives have been implemented to limit these (see box 5.4). Other than that, there are few requirements. There are no guidelines or rules that bind Norwegian industry in relation to how working conditions, freedom of association and human rights are practised when conducting business abroad. The potential damage to a company's reputation in the event of invidious practice is probably regarded as the greatest danger.

The OECD's NCP in Norway had its first complaint in 2005, which related to ForUM's complaint against Aker Kvaerner's work at at the Guantanamo base. ForUM was successful in its action, but it has not so far had any consequences for Aker Kværner. In spring 2007, an international conference was arranged in Oslo – *Partnerships for Sustainable Development*[14] where the focus was on corporate social responsibility. The conference identified human rights, the environment and transparency as focus areas for improving sustainability and social responsibility[15].

5.5.2 Transparency and responsible management

The Blair Initiative was launched by Prime Minister Tony Blair to reduce corruption in the oil and mineral industries and to help the revenues from such activity benefit the population of the host countries to a greater extent. The initiative was subsequently institutionalised under the name of EITI (Extractive Industries Transparency Initiative). Norway was the first industrialised country to sign up to the EITI, and has for a long time supported the initiative financially. Since spring 2007, Norway has been the host for the secretariat. This is a voluntary initiative aimed at transparency and accountability in the management of natural resources by safeguarding the publishing and evaluation of revenues from oil, gas and mining activities. Initiatives are being taken to increase the cooperation between states, companies, investors and the civil society, with the goal of greater transparency and better distribution of assets and incomes that accrue to society. Standards for transparency and responsible management have been developed. The extraction companies that take part in the EITI impose a provision on themselves to be open about financial transactions linked to their projects. They shall publish what they pay the authorities in the host country by way of taxes and duties and for concessions. The authorities shall publish what they receive from oil revenues to the public purse. Until now, the EITI has registered that 22 countries are in the process of introducing these standards and several other countries have expressed their willingness to comply with them. Norway urges all countries taking part in the Oil for Development programme (see chapter 7.7.3) to sign up to the EITI, however so far only Nigeria has taken up the challenge. Norway has otherwise allocated almost USD 1 million to the EITI's Multi-Donor Trust Fund, which is administered by the World Bank.[16] The fund shall strengthen participation and support for the EITI principles, by establishing national EITI offices in countries that have undertaken to implement the framework.

It is estimated that between USD 1,000–1,600 billion that is unlawfully earned crosses the country borders every year. A large part of this is generated in developing countries and ends up in tax havens. According to the OECD, countries that are described as tax havens have three main characteristics; they have low or zero tax in an attempt to attract capital, they protect investors from foreign tax authorities and they lack transparency in connection with the tax structure and the enterprises that are registered. Norway's policy in this context is to strengthen international rules that prevent funds that are drawn unlawfully from the developing countries being hidden in tax havens or being laundered by means of investments in the rich part of the world. In September 2007, Norway took the lead in an international working group on tax havens, as part of the efforts to reduce the gap between financing needs and actual international cash flows in developing countries. The aim is to put the tax havens' role on the UN agenda, and work closely with the World Bank to produce relevant data and analyses.

The propagation of tax havens raises two main challenges. The greatest of these is that tax havens lead to less inspection and less democratic control of global capital flows. The lack of transparency gives authoritarian regimes and criminals the opportunity to hide assets or launder money. This has major consequences on the economy in developing countries with extensive corruption and embezzlement of public funds. The other chal-

14. Arranged by the Ministry of Foreign Affairs in collaboration with the Ministry of the Environment, Oslo municipality and a number of international organisations in Oslo on 28-30 March 2007
15. http://www.csr-oslo.org/NR/rdonlyres/2D7511F2-98F1-49FE-9DE4-816E35A944AE/67572/TheOsloAgendaforChange1.pdf
16. Further reading on EITI MDTF, http://eitransparency.org/about/mdtf

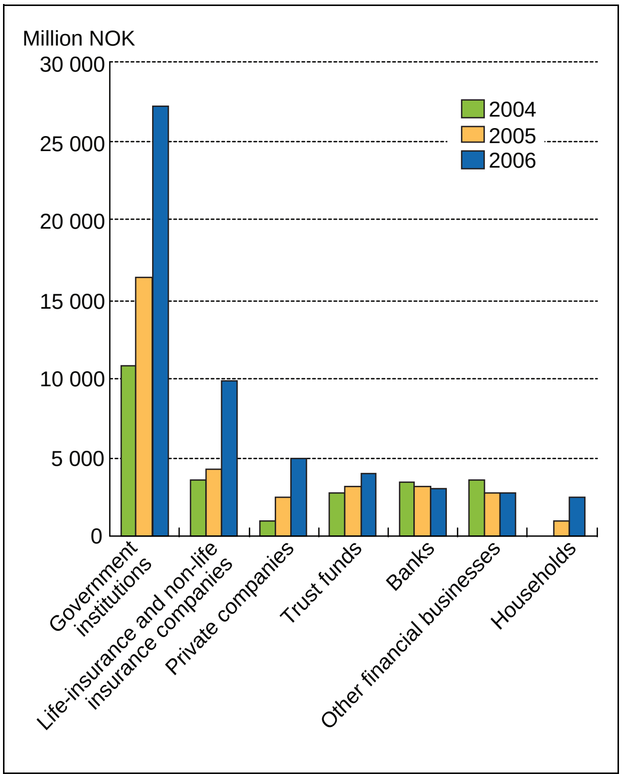


Figure 5.7 Financial assets in tax havens. NOK million

Note: Tax haven is defined here in accordance with the OECD's definition as reported in Tax Justice Network (2007). The figures are based on portfolio investment balances.

Source: Statistics Norway and Policy Coherence Commission's calculations.

lenge is that tax havens lead to generally low tax levels for international capital by companies and funds registering themselves in countries with extremely low tax. Thus, the tax-related competition between countries increases, and it becomes difficult for developing countries to increase the tax level or introduce new taxes in order to obtain the revenues they need without scaring off investors.

Figure 5.7 shows that globally, Governments account for the largest share of capital placed in tax havens, and that such investments have increased considerably in recent years.

Considerations of the Commission

The Commission also wants to emphasise the importance of improving the quality of the investments. The extractive industries are pivotal since 2/3 of the world's poorest live in countries rich in resources, while revenues from those resources are often not invested in the fight against poverty and sustainable development. International regulations regarding transparency in the extractive industries are of great importance since the main part of the investments made in poor countries fall within this sector. By announcing its own implementation of the EITI, Norway has become a frontrunner in the efforts to develop international rules and standards for transparency in this industry. The Commission believes it is extremely important that this work is continued.

The starting point for much of the debate on corporate social responsibility is the fact that many developing countries have weak Governments with insufficient inspection bodies and legal systems, and consequently lack the ability to protect basic human rights and responsible resource management. In line with the increased documentation on the correlations between how companies work in different countries and breaches of human rights and environmental damage, attitudes and behaviour of companies and authorities are changing. Many companies have established ethical guidelines and a number of voluntary schemes have been established with the UN's Global Compact at the centre. The strength of the voluntary schemes is that they have acted as an arena for the exchange of experiences and expertise. Their major weakness is that it is only the companies that actually want to, that align themselves with the good principles. The Commission believes that the experiences underline the necessity of securing binding global schemes that define which standards are acceptable for how companies carry out their activity, and which are applicable to all companies regardless of where they are in the world. The UN will be the body that can provide global standards with the necessary legitimacy.

The Commission with the exception of Kristian Norheim believes that Norway should make progressive efforts towards developing standards, systems, information and incentives for Norwegian industry's social responsibility abroad. The Government can play an active role in facilitating the exchange of experiences and skills-building, as well as developing tools and checklists that can be used by various companies. Knowledge of and development of tools for handling corporate social responsibility are still inadequate. More resources should therefore be allocated to Norwegian research centres to develop robust specialist environments in this area. In the efforts to facilitate the private sector's social responsibility, the Government also needs to focus on statutory standards.

The definition of tax havens that the Commission applies says that they are characterized by very limited openness and transparency in combination with no or extremely low tax rates. A lack of transparency contributes to facilitating the flow of both legally and illegally earned funds and drains the developing countries of values. In December 2006, the Government launched its anti-corruption project where the fight against tax havens played a central role. However, the Commission with the exception of Kristian Norheim would like to point out that Norway is facing a challenge of consistency in its engagement if this policy is continued simultaneous to government-owned funds, banks and financial institutions either consciously or subconsciously reaping benefits from the lack of inspection where the companies are registered. The Commission with the exception of Kristian Norheim therefore recommends a broad and coordinated effort to promote rules that safeguard inspection and democratic control of cash flows.

The Commission member Kristian Norheim believes that tax competition is positive and that the use of concepts like «tax heavens» cover the promotion of a specific agenda. Very few would defend hiding capital stemming from criminal activities. The international hunt for money flows with a criminal origin should therefore have high priority, no matter what tax rate is prevalent the the recipient country. The problem is that some high tax countries want to remove the possibility of tax competition. Through their work in the EU, the UN and OECD they want to dictate and standardize countries' tax regimes which was perhaps in the first place established in protection of tax competition. High taxes have a negative impact on productive work and the will to work. Tax heavens function as a tax-efficient platform for investment across borders, they give increased investment opportunities and motivate growth promoting tax policies in countries with high taxes. Many developing countries are faced with great challenges in the form of instable and corrupt Government. Supporting the endeavours of such regimes to pursue capital which is fleeing their countries destined for so-called tax heavens is therefore not without its problems. Instead of participating in an international struggle against what is known as tax heavens – under the cover of helping poor countries – Norway should rather support political and economic reforms in the poor countries and thereby contribute to making it more attractive for investors and capital owners to invest in these countries. At the same time Norway should support initiatives to track down capital that sitting or past corrupt regimes have stolen from their citizens.

5.6 Proposal for initiatives: Investments

5.6.1 Government Pension Fund – Global

Initiative 1: With the exception of Kristian Norheim, the Commission recommends that the Government Pension Fund – Global makes investments that to a large extent can benefit the poor. Positive screening can be an effective instrument for promoting investments that protect the environment and promotes human rights and the fight against corruption. It is important to undertake an active ownership that attaches importance to environmental and development considerations.

- The Commission suggests that the Government Pension Fund – Global directs a significant share of the investments towards positive screening of renewable energy and relevant climate technology. By doing so, the fund can facilitate a speedier technology development within sustainable energy and climate-friendly technology.
- The Pension Fund's ethical guidelines must constantly be evolving. In addition to stringent rules for pulling out of individual companies, the guidelines should be changed so that they enable investments to be withdrawn from companies based in states that systematically and seriously breach human rights.
- The Commission suggests that the Storting carries out consultations with the Ministry of Finance and Norges Bank on the operative management of the Government Pension Fund – Global, where the application of the ethical guidelines is discussed along with how the Government's role as an active owner is exercised.
- It is recommended that the Government Pension Fund – Global maps the scope of the fund's investments in tax havens and considers initiatives that can limit the scope of such investments. A closer collaboration with other funds should be enabled in order to devise a common strategy. The Pension Fund should aim for investments in companies with a large degree of transparency.
- When exercising ownership, the Government Pension Fund should place emphasis on companies being open about corporate structure, tax and ownership. Companies should be expected to report on all companies in which they have ownership, which can reveal companies in places where they have no real operation.

5.6.2 Fund for investments in low-income countries with focus on Least Develped Countries and Africa

Initiative 2: It is recommended that over a 5-year period, a fund of approximately NOK 10 billion is built up for investments in low-income countries with special focus on Africa and the Least Developed Countries. The fund should be administered by Norfund, which should also be allowed to increase its administrative capacity since investments in unstable and poorly developed markets are resource-intensive. The fund should be administered separately from the aid-financed investment portfolio and should be owned by the Ministry of Finance. The requirements for returns must be adapted to a clear goal of increasing the investments in the Least Developed Countries and low-income countries since such investments have a higher risk profile than other investments. A focus of this nature will also mean that key skills are developed for investments in unstable and poorly developed markets.

- Norfund is allowed to strengthen its capacity for both project development in order to make potential projects attractive for investors, and to strengthen the companies by ensuring effective business management and proper accounts.
- The investments should be used for direct investments and participation in local and regional investment funds, and a special focus on renewable and climate-friendly energy where the emphasis is also on energy access for the poor.
- The Commission would like to highlight the importance of Norfund building up capacity to safeguard the development effect, good project development and risk management of the investments. The development effect of the investments must be reported to the owner of the fund.

Commission members Linn Herning, Camilla Øvald, Audun Lysbakken, Åsne Seierstad, Anne K Grimsrud, Arne Strand, Lars Haltbrekken and Hildegunn Gjengedal support the initiative, but have the following comments: Norway as a major international investor should help to increase the focus on social and sustainable investments. On the other hand, it is more important in a development perspective that the quality of the investments is safeguarded in such a way that they make a positive contribution to development, than that Norway should end up quantitively increasing investments in poor countries that have not been properly safeguarded. These members make reference to the Storting's handling of Norfund (Proposition to the Storting no.1, 2007–08) where it is made clear that Norfund has had problems in finding suitable investment objects in the Least Developed Countries. These members are sceptical to establishing a fund of this magnitude for investments in low-income countries managed by Norfund with its existing instruments. A Government investment fund of such a scope should be conditional on competence environments in the South having contributed to the development of the terms for the fund's policy system and structure.

Commission members Hildegunn Gjengedal and Lars Haltbrekken further believe that the fund should also be used to build a sustainable and poverty-reducing agricultural production including processing, primarily aimed at national consumption.

Commission member Camilla Stang has declared herself disqualified in questions relating to Norfund and will not be expressing her opinion on this initiative.

5.6.3 GIEK

Initiative 3: GIEK's developing country scheme gives Norwegian companies greater possibilities for investing in poor countries, at the same time promoting investments in vital infrastructure, which will be vital to business development and growth in the poorest countries. The Commission would like to highlight the importance of a qualitative assessment of all guaranteed investments and that GIEK has good internal systems that ensure the investments do not undermine the environment, social standards and the fight against corruption.

- The Commission recommends that the developing country scheme is strengthened by increasing the ceiling.

Commission member Camilla Stang has declared herself disqualified in questions relating to GIEK and will not be expressing her opinion on the initiative.

5.6.4 Support for expertise in industry

Initiative 4: Based on the importance of promoting development-oriented investments in poor countries, the Commission would like to propose that the Ministry of Foreign Affairs puts emphasis on business development and expertise-related support for Norwegian businesses in developing countries.

- The Ministry of Foreign Affairs should review routines and expertise composition of its embassies and consulates, including that of Innovation Norway, in order to ensure that they can quickly assist Norwegian industry by providing skills and knowledge of the conditions in various countries to companies wishing to set-up in developing countries.

5.6.5 Bilateral investment agreements

Initiative 5: With the exception of Kristian Norheim, the Commission believes a study needs to be undertaken of whether investment agreements will actually increase the scope of Norwegian investments in developing countries, and how they should be modelled in order to have the optimum effect on development and the fight against poverty. It is also recommended that Norway, both in multilateral and bilateral contexts, attaches importance to the developing countries' policy space to regulate investments in relation to market access and after the investment has been made.

- The majority of the Commission, with the exception of Malin Stensønes, Julie Christiansen and Kristian Norheim, believe that if Norway is to enter into bilateral investment agreements these should be modeled in a way that does not restrict the developing countries' policy space. This means that investor-state dispute resolutions would not constitute a part of the agreements. Norway must not enter into bilateral investment agreements with developing countries where performance requirements are included, as this limits the country's possibilities for using policy instruments that can aid long-term development. This includes, but is not limited to, requirements for the export share, repurchase agreements and requirements for the use of national input factors in production, requirements for national ownership interests in investments, requirement for technology transfers, requirements for the reinvestment of surplus, requirements for a nationally employed workforce and/or board participation.

5.6.6 Tax havens

Initiative 6: The Commission with the exception of Kristian Norheim recommends broad and coordinated efforts by the Minstry of Finance, the Ministry of Justice and the Police and the Ministry of Foreign Affairs to facilitate international rules and regulations that ensure inspection and democratic control of financial flows.

- The Commission believes it is important for Norway to pursue an active policy in the OECD in order to establish international rules that can reduce the scope of tax havens and that safeguard the publishing of financial flows. The efforts to bring the role of tax havens onto the UN agenda, and for the World Bank to produce relevant data and analyses are also considered to be extremely important.
- Norway must to the greatest extent possible analyse and share trade data with relevant countries and players, so that such data is better monitored in order to expose any tax evasions.

5.6.7 Foreign exchange transactions

Initiative 7: With the exception of Julie Christiansen, Malin Stensønes and Kristian Norheim, the majority of the Commission recommends that Norway works towards an international tax on foreign currency transactions in order to curb undesired, short-term currency speculation and to contribute to new financing sources for development and the fight against poverty.

- Norway should also carry out efforts to ensure that developing countries can retain or introduction regulations in the form of capital control.

5.6.8 International regulations for transparency in the extractive industries

Initiative 8: The Commission expects the Norwegian Government to initiate a process to implement the principles of the EITI. The Norwegian authorities should also support EITI-type mechanisms regarding the use of revenues (public expenses). The extractive industries sector must be transparent from the point where contracts are being signed to the point where revenues are spent.

- The Commission would like to emphasise that many poor countries have entered into poor agreements that are safeguarded against future political changes and EITI-like requirements for inspection. It is important that Norway continues this work by assisting the authorities in their endeavours to manage multinational companies that could be active driving forces in channeling legitimate revenues away from the country through legal and illegal loopholes.

- Norway should follow Nigeria by entering the principles that form the basis for EITI for Norwegian companies into law. Efforts should also be made to promote this in other countries and expand the range of application of the EITI principles. Listed companies in Norway should have to adhere to the EITI principles both in Norway and abroad. In their reporting on payments they should be compelled to reveal both what types of payments that are made and who and what countries that receive the payments.
- The Norwegian Government must undertake efforts to ensure that countries receiving aid from the Oil for Development scheme take part in the EITI and publish how they use their oil revenues.
- With the exception of Kristian Norheim, the Commission regards civil society's role in a transparent and democratic resource management to be extremely central. The environmental movement, trade union movement and other civil society organisations must be included further in Norwegian energy aid, and particularly in the Oil for Development programme that is based on Norwegian experiences in the management of energy resources.

5.6.9 Corporate social responsibility and Government exercising of ownership

Initiative 9: With the exception of Kristian Norheim, the Commission sees a major need for binding international guidelines and minimum standards for corporate social responsibility. Norway needs to work actively for international rules and lead the way in the introduction of a national set of rules. The Commission recommends that:

- The Government works actively to secure binding international guidelines and minimum standards for corporate social responsbility.
- Pending an international set of rules for reporting, Norway introduces a statutory standard for reporting on social and environmental indicators. This standard should encompass all government-owned companies in Norway, as well as Norwegian and foreign companies listed on the Oslo Stock Exchange. The information that is reported must be publically available and verifiable. It will be natural for a strengthened reporting legislation to be based on the existing GRI standard.
- The OECD's National Contact Point (NCP) should be strengthened and developed further. Although the scheme is voluntary, Government support schemes should, via for example GIEK and Norfund, be made conditional on affiliation to the OECD's guidelines and support for the NCP. The option of filing complaints through the OECD NCP must be made visible and promoted. Norwegian embassies must contribute to this in countries where the Norwegian business sector is active. Norway should work to ensure that the NCP is given a statutory right to access internal company information, in line with what the public ombudsman has. Pending a strengthened set of rules, consideration should be given to creating a national information and monitoring body with inspection authority in the form of an ombudsman for corporate social responsibility.
- The Government should support and stimulate arenas in which companies can exchange experiences on best practice in social responsibility, both nationally and internationally. Small and medium-sized companies should be given special attention since their capacity to handle these issues is more limited.
- The importance of companies with operations in developing countries attaching importance to positive local ripple effects is highlighted. The Government should urge and contribute to companies proactively recruiting locally and promoting local deliveries and collaborations with local companies such as contractors and suppliers where these exist.
- Norwegian development policy must emphasise the importance of a strong civil society and a strong trade union movement. Efforts should be undertaken to map how Norway can help strengthen the civil society and trade union movement in co-operation with Norwegian companies investing in developing countries.

Initiative 10: The Commission with the exception of Kristian Norheim recommends establishing clearer guidelines for all Government ownership management. The ethical guidelines for the Government Pension Fund – Global will be a suitable starting point.

- Government ownership management must be used as basis for both wholly-owned companies and companies in which the public sector has ownership interests. The Commission also considers it important that the Government aims for both active use of local subcontractors in developing countries and to ensure that these efforts are undertaken in accordance with the ILO's standards. The Commission recommends that state-owned companies must also be held responsible in relation to their owners for the working conditions with direct subcontractors.

- As an owner, the Government should also contribute to the development and establishment of incentive systems, including managers' salaries, which awards results in the environmental and social areas. Based on an assumption of a positive correlation between results and rewards, it will be natural to expect that a company that takes its social responsibility seriously will be served by incentive schemes that always awards results in the environmental and social areas.

Chapter 6
Financing for development and the international finance institutions

The World Bank, IMF and a large part of the UN system are key institutions with regard to framework conditions for and financing for development. The UN contributes through its special organisations and funds for development by giving legitimacy to international sets of rules with a bearing on development, professional expertise, aid and mobilization of other resources for financing development and through its peace operations. Throughout its history, the World Bank has provided strong guidelines on the development of poor countries through the conditions and advice that has been linked to the loans given by the bank to poor countries. Parallel to this, the IMF has given credits to developing countries in financial difficulties. The fund's stablisation progammes for the macroeconomy have been the basis for credits for development purposes and has put strong restrictions on the countries' budget expenses and latitude within economic policy.

Norway is one of the UN system's largest contributors. Table 6.1 shows how Norwegian contributions for development aid are spread between the five largest multilateral recipients.

Table 6.1 Multilateral organisations: The five largest recipients of Norwegian aid (NOK million)

	2003	2004	2005	2006
World Bank[1]	1 046	1 067	1 523	1 526
UNDP	1 129	1 106	1 350	1 293
UNICEF[2]	584	890	1 328	1 152
Global funds[3]	343	505	721	970
World Food Programme	334	315	607	539

1 Includes support to IBRD, IDA and IFC, with deductions for debt relief and support channeled to the Fast Track initiative (education) and the global fund for aids, tuberculosis and malaria (GFATM).
2 Excluding support for the GAVI Alliance (the Global Alliance for Vaccines and Immunization).
3 Includes GFATM, GAVI and Education for all.

The table shows that there has been an increase in the support to all of the five largest multilateral recipients during the period 2003–2006. The largest increase has been in the support to global funds, particularly in the field of health. The largest recipients among the global funds in 2006 were GAVI, with NOK 499 million, GFATM, with NOK 271 million and the Fast Track Initiative, with NOK 200 million. The support from the global funds was channeled through existing multilateral organisations such as the World Bank, UNICEF and WHO, but managed by separate boards in the funds.

The support through the multilateral organisations is given in two ways; as basic support to the organisations' programmes approved by the board (general contributions) or as earmarked support to concrete programmes and projects (multi-bilateral aid). The general contributions are regarded to be multilateral support, while earmarked funds are considered bilateral support. It is the earmarked support in particular, i.e. multi-bilateral aid, that has increased in recent years.

6.1 The UN system. International law and resource mobilisation

Large parts of the UN system, such as the United Nations Development Programme (UNDP) are focusing on aid, and the UN is a significant international player in this field. Other special organisations have mandates that extend considerably beyond aid at the same time as their activity is aimed at meeting developing countries' challenges and influencing the framework conditions that the international society puts on poor countries' development. Examples include the High Commissioner for Refugees (UNHCR), who works with migrants and internal refugees, UNCTAD, which deals with the relationship between development and trade issues, the Security Council in the role as clearing body for the use of peace-keeping forces, the WHO, which provides advice on health and defence against international epidemics to all countries, UNESCO, which works with education and research, the UN's Environment Programme (UNEP) and the Intergovernmental Panel on Climate Change (IPCC), which works with environmental and climate change matters, among others.

One of the main tools these organisations have to affect framework conditions is international conventions, which are international laws and rules that are devised in collaboration with countries and as far as possible try to provide equal conditions for all affected countries. After approval in the member countries' national assemblies, the conventions shall, in principle, be incorporated into national legislation. The UN is thus an important forum for setting international rules that can contribute to better development conditions for poor countries in most of the areas that the Policy Coherence Commission deals with.

The UN is also one of the most important channels for and managers of international initiatives and processes that contribute to development. A key central process of this type was initiated in Monterrey, Mexico in 2002, Financing for Development (FFD), where world leaders including the USA agreed to mobilise more funds for development, as laid down in the The Monterrey Consensus. Increasing aid was a key point, but focus was also put on mobilising resources in addition to aid to developing countries by means of better framework conditions for industry and internationally through debt relief, better trade terms and more foreign investments and a more flexible policy from international financial institutions. Some of these areas are also among the central non-aid areas for resource mobilisation in the UN's Millenium Development Goal no. 8.

The UN's Global Summit in New York in 2005 was a milestone conference both for the Monterrey Consensus and for the achievement of the Millenium Development Goals. The summit confirmed that limited progress had been made in the mobilisation of resources for development. This was also the catalyst for the G8 leaders agreeing at Gleneagles in the same year a large-scale effort for the mobilisation of more aid for development. The third such conference is being held in Doha in 2008. At the time of writing, however, development aid has fallen, a trade solution in the WTO appears to be a long way off, the fulfilment of the Millenium Development Goals is poor and unevenly distributed throughout the world, energy and food prices are rising, the growth in the North is falling and consequently the demand for the developing countries' goods, which means that the FFD conference in Doha will no doubt have a much more difficult task in inspiring increased efforts to assist developing countries than the two previous meetings.

Considerations of the Commission

The Commission regards the UN as the most important arena in the efforts for peace, security, the environment, development and the protection of human rights. The UN has a global mandate, global support and a broad, multidisciplinary area of responsibility. This gives the organisation a special position. The Commission believes it is important for Norway to continue its efforts aimed at strengthening the institutions in the UN that are responsible for work relating to the environment, poverty and sustainable development. Fighting poverty requires a stronger international legal system with better policy instruments and possibilities for monitoring and sanctions.

The Monterrey Consensus and Financing for Development is the only international process where various policy areas for development are considered coherently. Trade, debt and investments were important topics, as were aid and national development policy. This makes Financing for Development a key process in the efforts to mobilise resources and improve framework conditions for development. There are major indications that the third milestone conference in Doha in 2008 will be a challenge since many of the promises made in Monterrey have not been kept. Nevertheless, the Commission believes it is important that Norway prioritises the efforts to mobilise resources and change framework conditions through the Financing for Development process. A lack of results in terms of development will lead to a poorer negotiation climate in other negotiation processes as well.

With regard to the efforts to mobilise more resources for development, the Commission believes it is important that national resource mobilisation is moved up on the international agenda. Many developing countries lose large sums of money due to both legal and illegal tax avoidance as a result of tax havens and a lack of transparency, combined with poor tax regimes.

In order to strengthen the developing countries' negotiation capacity in connection with international agreements on trade and investment, the Commission believes it is important to strengthen UNCTAD as a producer of knowledge and arena for negotiations on south-south trade. UNCTAD has a large degree of legitimacy among developing countries, and through its annual reports on trade, investments and development, put the focus on key topics that developing countries have been concerned with in international negotiations.

Commission member Kristian Norheim does not share the views of the rest of the Commission regarding the issues discussed in the preceeding four paragraphs.

6.2 World Bank Group

The World Bank Group was founded in 1944 at the same time as the International Monetary Fund (IMF), and has formal status as one of the UN's special organisations. Today, the World Bank Group is by far the largest international development institution, and the only development bank with a global mandate. In addition to the bank's role as the world's leading multilateral donor, it is playing an increasingly important role with regard to laying framework conditions for commercial investments in developing countries and as an indicator of how safe such investments are.

Most of the World Bank's capital base consists of guarantees from member countries. This gives the institution a high degree of creditworthiness and thereby the possibility to borrow from international capital markets on extremely favourable terms. The money is then loaned out to borrowing countries on approximately the same terms, which are normally much more favourable than the loans the countries would have had access to on the global capital markets. With regard to the poorest countries that do not have access to loans from the capital markets, the World Bank mobilises resources to its development fund (IDA) through periodic negotiations between donor countries.

The World Bank's financing has becoming increasing complex and varied over time. Traditional loans where the bank negotiates directly with the recipient and sets the terms, have been supplemented with various fund investments aimed at small and medium-sized companies and credit schemes that offer liquidity to the finance industry in developing countries. This is a reflection that a well-functioning financial market is regarded as necessary in order to create sustainable economic growth.

The debate on the development effect of the World Bank's activities has been about the latitude recipient countries have been given for formulating their own development policies as well as formal political power on the bank's board and management committees. One fundamental principle in the World Bank's statutory set of rules is that it shall limit itself to only setting financial conditions for its operational activities. The interpretation of what contributes to development has changed considerably, and the bank now applies a broad understanding of the term «financial conditions».

Box 6.1 The most important issues for Norway in the World Bank

Norway took over the Nordic-Baltic board position in the World Bank's Board of Directors on 1 July 2006. This entails Norway having responsibility for coordinating and presenting Nordic-Baltic points of view in the bank's board up to 2009. Norway thus has a unique opportunity to affect the World Bank.

According to the Ministry of Foreign Affairs, the most important issues for Norway during this period are as follows:

- Anti-corruption, good governance and human rights
- Energy for the poor and private sector development
- The environment
- Gender equality
- Peace and state-building

The Ministry of Foreign Affairs further states that,

«Norway will work actively for the World Bank placing greater emphasis on distribution issues in its policy, and ensures that public goods such as health and education benefit poor population groups. It is also important to work for a World Bank that listens to and cooperates with other development policy players, both globally and nationally. In line with the Soria Moria declaration, Norway will also work to strengthen developing countries' influence in the bank and for a World Bank that does not set requirements for privatisation against the wish of the national authorities. It is also an expressed goal to work for greater transparency in connection with Norway's role in the bank.»

The Nordic-Baltic constituency consists of: Denmark, Estonia, Finland, Iceland, Latvia, Lithaunia, Norway and Sweden, and makes up 0.63 per cent of the votes on the World Bank's board.

Source: «New role for Norway in the World Bank», Ministry of Foreign Affairs, press release, 4/7/2006.

Box 6.2 Trust Fund for Environmentally and Socially Sustainable Development (TFESSD)

The World Bank currently has around 1,000 trust funds from many different donors, in different areas. In 1999, together with Finland, Norway established the Trust Fund for Environmentally and Socially Sustainable Development (TFESSD). The objective of the fund is to strengthen the World Bank's and the partner countries' capacity and efforts within the environment, social development and poverty.

With the establishment of the fund Norway has stated that it would like to put emphasis on the bank's efforts to reduce poverty in a sustainablility perspective and contribute to increased collaboration between various departments in the World Bank, as well as with the UN system and other institutions and specialist environments. The fund received NOK 70 million support from Norway in 2005.

An independent evaluation carried out in 2008 recommended that the formulation of goals for the fund should be more closely defined, priority changes should be less frequent and the programme periods should cover several years, and sector boards involved in the trust fund should be more closely examined, with a view to making the fund more strategically oriented.

Source: TFESSD

For instance, the concept of governance is now included, which can be a fairly wide-reaching concept.

Throughout the 1970s and 80s, the World Bank's activity was based on a paradigm where a liberal market economy was seen as a prerequisite for economic sustainable development. This resulted in lending terms that forced the recipient countries to make extensive market reforms. After negative experiences with sector loans and structural adjustment programmes in the 1980s, many stakeholders have demanded that the World Bank should, to a far greater extent, recognise the necessity of the recipient countries themselves developing ownership to their own development strategies, and be given latitude to adapt their investments to national political and economic conditions. Opinions vary on whether and to what extent the Bank has changed as a result of the criticism. The World Bank is still criticised for continuing to lay down terms for privatisation and economic liberalisation in connection with loans.

Many donor countries, including Norway, have argued that the World Bank should increase its recipient orientation and contribute to increased national ownership of development programmes and projects. Together with the IMF, the Bank requires developing countries to devise national Poverty Reduction Strategies (PRS) – as a basis for ensuring that the institutions' policies are in line with the recipient countries' own priorities, with poverty reduction as the key issue. Many critics question the developing countries' real ownership of the PRSs and whether the World Bank still has too great an influence on their political priorities through the de facto approval of the countries' plans entailed in this scheme.

The PRSs were introduced as a result of widespread scepticism in the aid community concerning whether many of the World Bank's financial loan terms actually reduced poverty in the recipient countries. However, many donors, including Norway, believe that the bank should strengthen

Figure 6.1 The conditions for access to credit are important for growth and development.

its poverty focus further (see box 6.1). Norway and the UK, among others, therefore believe that both the World Bank and the IMF should align *all* of their loan terms for developing countries with their PRSs. The basis for this is both the consideration to national sovereignty and the recognition that many of the conditions for market economy reforms in developing countries do not necessarily reduce poverty. The Government has an expressed goal of using aid funds and its involvement in international fora to strengthen the capacity of the public sector in developing countries.

6.2.1 Debate on executive bodies

In addition to the criticism of the loan conditions, the executive bodies of the World Bank and the IMF have also been subject to criticism. It has been claimed that by the very fact that their own decisions are not made on a purely demoractic basis, the institutions lack the legitimacy to promote democratic reforms in developing countries. The debate has also covered the informal arrangement whereby the president of the World Bank is American and is nominated by the USA, while the IMF's president is European and in reality appointed by the EU. This power constellation has been subject to criticism as it heavily affects the interests of the countries that are actually affected most by the decisions taken.

6.3 Norway's involvement in the International Monetary Fund (IMF)

The IMF was founded in Bretton Woods in 1944, at the same time as the World Bank, and 185 countries are currently members. The idea behind the IMF was to stimulate more international, economic cooperation in order to prevent a repeat of the wave of economic protectionism and instability that led to the global financial crisis in the 1930s. Since its inception, the fund has been working to facilitate sustainable economic development based on international financial stability. It has become a key player in international economic co-operation, with the main responsibility to facilitate the stability in the international monetary system and act as a forum for co-operation on monetary and foreign exchange policy issues.

Like the World Bank, the IMF has continuously modelled its loan programmes in accordance with the development of international financial markets and changes in the demand for long-term capital. Currently, the IMF's activity is concentrated in three main areas: monitoring the economy in the member countries, loans in crisis situations and technical assistance. The IMF's influence on the recipient countries' political and economic policies have increased in recent decades, but has diminished in the past few years in line with many developing countries gaining access to alternative sources of long-term capital. The IMF's fiscal policy advice in relation to many countries that applies for support in connection with financial crises was for a long time to demand extensive and speedy market economy reforms. Central to this was an inflation target of five per cent, requirements for balanced national budgets and growth in the GDP per capita. In developing countries, it was often the budget items that particularly affected welfare schemes that it gave least resistance to cutting. At the same time, it was discovered that the requirements for higher interest rates and lower public expenses hindered both private and public investments. This meant that help from the IMF was often associated with social and political fundamental changes in developing countries.

In 1996, in recognition of the fact that many countries were struggling to recover from a debt crisis, the World Bank and IMF cancelled their loans to many of the Highly Indebted Poor Countries (HIPC). The initiative linked the debt cancellation to criteria for the need for debt relief and to conditions related to economic policy and governance. To start with, the countries must develop a Poverty Reduction Strategy Paper (PRSP), where they outline their strategy for reducing poverty, which is also more generally used as a basis for support from the World Bank, IMF and other multilateral and bilateral donors. The World Bank and IMF then carry out a debt analysis in which the country's financial situation is carefully considered. Before the debt is effectively cancelled, the country must implement some of the imposed reforms in order to ensure that the saved expenses contribute to development and the reduction of poverty. Next, calculations are made of how much debt relief is required to make the debt manageable. Negotiations are then carried out between the creditors.

The IMF has established its own subsidised credit scheme for poor countries (PRGF). This is perhaps the most important development policy initiative that the IMF has undertaken in recent years. Although this mechanism reflects a recognition from the IMF that strong requirements for market liberalisation can have negative social consequences, it does not necessarily mean that the IMF's initiative will now have an entirely positive

Box 6.3 Norway and the IMF

In accordance with paragraph 25 of the Norges Bank Act, Norges Bank shall administer the financial rights and fulfil the corresponding obligations that ensue from Norway's participation in the IMF. Norges Bank is also the secretariat for the IMF work in Norway. This is a task that Norges Bank carries out on behalf of the Ministry of Finance.

Norges Bank in consultation with the Ministry of Finance and other Norwegian authoritative bodies prepares Norwegian positions in connection with issues being submitted for decision in the IMF's board. The Norwegian points of view are then discussed with the other countries in the constituency[1] with a view to reach a common position. The Nordic and Baltic countries make up a constituency in the IMF and have a joint representative in the IMF's board.

According to the Ministry of Finance, some of the most important current issues are as follows:

1. The voting weight of developing countries
The Government supports proposals to increase the number of board seats in order to improve the developing countries' representation in the IMF and to increase the number of basic votes and by so doing strengthen the voting weight of the developing countries.

2. Conditionality requirements
In accordance with the Government's plan of action for fighting poverty, we will help to ensure that the fight against poverty is the top priority in the work of the World Bank and IMF. In this connection, the Government will oppose requirements for liberalisation and privatisation in IMF programmes if those requirements are not development or poverty-oriented or a part of the fight against corruption.

3. Debt relief
The Government has been a leading force in the implementation of the debt relief initiative. Norway argued for the Nordic-Baltic constituency in the IMF supporting the majority in the IMF's board to cancel the debt of 19 out of 20 relevant countries in January 2006. Norway was in the minority in the Nordic-Baltic constituency, but the IMF board were made aware of Norway's point of view.

[1] Same constituency as the World Bank

development effect. For example, the debt relief has to a large extent been used for repayment of debt from IMF's previous loan programmes. This indicates that the reforms have not been particularly successful and that setting conditions is not necessarily an effective instrument for assisting receipient countries. Nevertheless, the dramatic reduction in debt servicing that the IMF and other creditors have been involved with, has been pivotal to increasing the efforts related to initiatives to reduce poverty in many countries, e.g. investments in health and education, which incidentally are a part of the conditions for receiving such debt relief.

The World Bank has estimated that the 22 first countries to reach the decision point for debt relief under the HIPC scheme, increased their input in social initiatives over public budgets by a total of USD 3.4 billion in 2001 and 2002. Around 40 per cent of these funds went to education initiatives and 25 per cent to health initiatives.

In recent years, the IMF's role with regard to stabilising international financial markets has been subject to broad debate. The growth of short-term financial flows and the consequences of the IMF's interventions in various financial crises have raised questions on the IMF's relevance use of stabilising initiatives in a globalised world and on how and under what circumstances the fund should be involved in developing countries. The powerful positions that the World Bank and IMF have in global development policy have also led to many developing countries wanting more influence in the management systems. Like the World Bank, the IMF's undemocratic management system has been criticised, and various proposals for a broader and more democratic voting system have been put forward. The main argument for increased representation from the developing countries is that these should to a greater extent be able to decide which guidelines they shall be subject to, and what priorities the fund should have. The most important counter argument is that conflicts of interest can arise if the borrower has the opportunity to formulate conditions that they themselves must be bound to, and that this can gradually undermine the fund's financial sustainability.

Another ongoing debate is whether and how the IMF should become involved in microeconomic affairs that affect poverty in developing countries. The IMF's increasing focus on poverty reduction reflects the general legitimacy crisis that many development institutions found themselves in in the 1990s due to a lack of results. In this connection, the IMF has to an increasing extent been coerced into documenting and strengthening the development effect of various loan schemes. Reducing poverty subsequently became one of the fund's express aims and the PRGF was introduced. This scheme signalled not only the beginning of an increasing effort between the IMF's and World Bank's programmes in the poorest countries, but also the IMF's activities and goals being considered to an increasing extent based on a broad development perspective where the criteria for success is whether they contribute to the reduction of poverty in the different countries.

In retrospect, the PRGF and IMF's general entry into the broader development debate has become subject to criticism from various quarters. A report from a committee headed by Pedro Malan, the former Minister of Finance in Brazil, concluded that the world is served by better interaction between the IMF and World Bank, but that the IMF does not have sufficient institutional capacity and expertise with regard to poverty issues. An analysis conducted by the IMF's own evaluation department examined the results from 29 countries in Sub-Saharan Africa, which have made use of the PRGF and drew the same conclusion. The report claimed that the IMF's guidlines and programmes with regard to aid and poverty are undermined by ambiguity and confusion. The report also believed there was a major gap between rhetoric and practice with regard to fighting poverty in low-income countries. This ambiguity, which characterised the IMF's board and administration, meant that employees chose to prioritise macroeconomic stability, just as before.

Others have expressed skepticism to whether the PRSP process actually strengthens the developing countries' position. According to the IMF and the World Bank, the PRSPs are developed by the recipient countries with input from the civil society. However, many critics believe that the PRSP process, envisaged as a mechanism to strengthen the recipient countries' power to formulate their own development strategies, has increased the World Bank's influence over the countries' priorities and strategies. In that sense, the initiative represents a continuance of the structural adjustment programmes instead of a break from it. An independent report by researchers at Oxford University published in 2003 concluded that civil society can only influence the programme formulation to a very limited extent, and neither is it possible for Governments in recipient countries to do this, particularly with regard to macroeconomic assessments and guidelines. Many other studies of PRSP processes in various countries have also found that the policy space of the recipient countries is often limited.

6.4 Illegitimate debt and responsible lending

In addition to the introduction of the PRGF and IMF's new role in the development process, debt relief has been much debated. An important part of this problems is how debt incurred by corrupt and often authoritarian regimes should be handled. *Odious debt* refers in this context to loans that have been granted even where it was known that the regime does not have the support of the people and that the loan will not benefit the population. *Illegitimate debt* is a broader concept that refers to loans that are given on immoral and unethical premises, where the creditor must take part of the responsibility for the loan not being repaid. In 2006, Norway Commissioned separate analyses on odious debt from two different international organisations. The World Bank concluded that, under international law, a country cannot refuse to repay national debt even if it is odious. The analysis also said, however, that this should not prevent donor countries and recipient countries from trying to ensure that the loans benefit the population. UNCTAD had a somewhat more nuanced view in its analysis and believe that although the term illegitime debt does not have any foundation in international law, it is still relevant and useful in relation to the debt problem. The problem is that there is no legal forum that can assess whether a loan is illegitimate or not. Instead, questions can be raised in bilateral and multilateral negotiations on debt relief, or legal proceedings on illegitimate debt can be initiated in national courts of law.

The knowledge that a great deal of debt in developing countries can be traced back to authoritarian and corrupt regimes has put pressure on the financial institutions' and the creditor countries' loan schemes. Considerable amounts of debt also stem from loans given to projects where it can be claimed that the lender knew, or should have known, that the development policy effect would be minimal. The question of responsible lending has become topical in recent years, largely because of the growth in the number of lenders, where China is the main player. This has led to a growing concern that a lack of coordination and increase in loans can lead to a new debt crisis. The question has been raised, however, of whether responsible lending can be considered solely on the basis of sustainability and debt burden criteria. This has led to a debate on the need for an international framework that can prevent the loans from undermining democracy, the environment, the fight against corruption and human rights. On the other hand, it has been argued that criteria for responsible lending that are too stringent can result in developing countries risking a reduction in the access to loans or that the loans will be more expensive.

Considerations of the Commission

The international financial institutions play a key role in the development policy and are extremely influencial in countries that receive aid and loans. The Commission believes that the need for democractic reforms of the international financial institutions is still great. Conditions are still set in connection with loans, aid and debt relief that can undermine democratic processes and the fight against poverty. A number of studies, including from European Network on Debt and Development (EURODAD 2007) and the study by Benedicte Bull from 2006 financed by the Ministry of Foreign Affairs has shown that the World Bank is still setting requirements for privatisation in its programmes. The Commission believes that it should be left to each individual country to consider in its economic policy the relationship between the private and public sector. A coherent Norwegian policy for development must also to a greater extent than previously entail a critical review of Norwegian policy with regard to the IMF. The need for this has particularly been highlighted by the evaluations carried out by the IMF's own evaluation office, the IEO in 2007 and 2008, which have raised questions on the number of conditions, their content as well as their relevance for fighting poverty. The World Bank and the IMF also play a sufficiently important role that these institutions' legitimacy also with regard to demoractic governance is considered to be important.

Kristian Norheim does not share the views expressed by the rest of the Commission in the above paragraph.

The Government's decision in 2006 to cancel the debt related to the ship export campaign has generated substantial interest internationally. By acknowledging joint responsibility for the debt, Norway was one of the first countries ever to help put the question of a broader lender responsibility on the agenda. The Commission believes it is important that this decision is actively followed up by Norway. A future international approach to responsible lending must also address irresponsible lending in the past where both bilateral and multilateral lenders have granted loans to oppressive regimes and irresponsible projects.

6.5 Proposals for initiatives for financing for development:

6.5.1 Financing for development

Initiative 1: With the exception of Kristian Norheim, the Commission believes that Norway should give priority to work related to the Financing for Development process in the UN. In addition to the efforts to increase resources and improve framework conditions within aid, trade and debt relief, Norway should also prioritise the international cooperation in order to strengthen the developing countries' possibilities for national resource mobilisation through taxation. International standards for transparency in reporting on corporate structure, tax, signature bonuses, licences and ownership are in this context of great significance.

– Norway should also prioritise efforts aimed at more effective institutional mechanisms to strengthen the follow-up of the Monterrey conference on Financing for Development. An enhanced secretariat and a separate committee for Financing for Development under the general assembly should be considered in this context.
– UNCTAD has a key role to play in giving advice, technical assistance and building a consensus around a more development-friendly trade policy. Norway should work to strengthen UNCTAD.

6.5.2 Responsible lending

Initiative 2: In the Financing for Development process and in other contexts, Norway should prioritise the work for international mechanisms that can consider handling illegitimate debt, and also ensure that guidelines for responsible lending have a broader approach than just sustainability analyses. It will be important in this work to have a good dialogue with new lenders so that these also support guidelines for responsible lending.

6.5.3 World Bank and IMF

Initiative 3: With the exception of Kristian Norheim, the Commission recommends that Norway continues to work for a democratisation of the international financial institutions.

- Developing countries should be given more voting weight and more «chairs» in the World Bank and IMF. The practice of USA or the EU appointing the management of the financial institution must be phased out.
- Norway should attach importance to greater transparency in the IMF. Minutes from the board meetings and the constituency's input should be publically available.

Initiative 4: With the exception of Kristian Norheim and Julie Christiansen, the Commission recommends that Norway continues its efforts to bring about reform in the World Bank. Economic conditions that entail requirements for privatisation and liberalisation should not be in existence in either the IMF or the World Bank. It should be up to the individual country to determine the balance between private and public sector in their economic policies.

- The Commission recommends that the support for the World Bank's IDA fund is reduced or frozen if no evidence is given of a change in practice with regard to requirements for liberalisation and/or privatisation.

Initiative 5: With the exception of Kristian Norheim and Julie Christiansen, the Commission recommends that development policy goals must also be used as a basis for Norwegian policy in the IMF. Norway should undertake efforts to restrict the IMF's role in low-income countries to its original mandate:

- This will entail a critical review of the PRGF programme with the aim of phasing it out in its present form. This loan scheme means that the IMF has a significant role within long-term development financing while the fund should focus on its original mandate, which is monitoring the economy in member countries, short-term balance of payment problems and crisis situations.
- The Millenium Development Goals must also be used as a basis for the IMF's macroeconomic advice, instead of today's one-sided focus on macroeconomic structure goals. Norway should undertake efforts to ensure that the IMF reduces the use of rigid inflation targets, wage ceilings, and assessments of the absorption capacity in national economies, since this reduces their latitude to develop alternative macroeconomic models.

Chapter 7
Climate change and energy

The economic growth that is necessary to reduce global poverty will need to take account of the environmental and resources aspects of growth and development. Growth has clear natural limitations. Since the Rio conference in 1992, crucial international efforts have been underway to integrate environmental considerations in policy-making, production and business activity. The Climate Convention and the Convention on Biological Diversity are among the many important international environmental obligations Norway has undertaken.

This chapter takes as its main points of departure the global climate and energy challenges, and the main forms is on national and international initiatives to manage these. The background for this priority is to put a special focus on the major challenge faced by the global community in order to safeguard the poor countries' opportunities for development and growth, at the same time reducing the climate emissions in order to prevent further detrimental climate changes.

The main emphasis in this chapter is therefore on the Norwegian climate and energy policies.

Important environmental challenges such as protecting biodiversity and the management of water and other natural resources will not be covered in this report, but this does not mean that these issues are not significant for the fight against poverty.

With such priorities, the Commission would like to emphasise that energy and climate issues can no longer be treated separately, but must be regarded in an integrated and contextual manner at national, regional and global levels.

Protection of biodiversity will be dealt with in chapter 8 on knowledge policies.

7.1 The poor are hardest hit by climate changes

It is well documented that the poor in developing countries are hardest hit by climate change, partly due to more droughts and floods, increased salt content in the ground water and increased burden of illness[1]. Climate change can in the worst case scenario reverse the positive development in global poverty reduction. Africa is particularly vulnerable and the poorest there are least capable of adapting to both extreme weather and reduced opportunities for agricultural production.

Out of 262 million people that were affected annually by natural disasters between 2000 and 2004, 98 per cent lived in developing countries. While 1 out of 19 inhabitants in developing countries were affected, the ratio in the OECD countries was 1:1,500. The need for improved early warning systems for natural disasters such as floods and droughts in order to meet the subsequent food crises and population movements is immense, and is growing in poor countries. There are few countries in Africa that currently have adequate early warning systems. The capacity for planning and resources for prevention is also poor despite it being shown that prevention of floods, for example, is much cheaper than paying for the consequential destruction.

Seventy-five per cent of the poor population in developing countries live in rural areas and subsist to a large extent directly on natural resources. They are largely lacking resources to adapt to changes in the environment such as polluted drinking water, more extreme weather and changes in local wildlife and plant life. The development of agriculture depends on sustainable management of the natural resources. According to the World Bank, some African farmers have already started altering their production, with new plant varieties,

1. UNDP (2007): Human Development Report 2007/2008. Fighting climate change: Human solidarity in a divided world. United Nations Development Fund. http://hdr.undp.org/en/reports/global/hdr2007-2008/
IPCC (2007): Intergovernmental Panel on Climate Change Fourth Assessment Report. Climate Change 2007: Synthesis Report. http://www.ipcc.ch/ipccreports/ar4-syr.htm
Stern (2006): Stern Review on the economics of climate change. http://www.hm-treasury.gov.uk/Independent_Reviews/stern_review_economics_climate_change/sternreview_index.cfm
WHO (2003): Climate change and human health - risks and responses. http://www.who.int/globalchange/publications/cchhsummary/en/
For this publication I think we have referred to 2006 in the text instead of 2003.

Box 7.1 Climate Change and Development

Climate change can lead to arrest or reversal of development in poor countries. The UNDP has identified five areas that are especially at risk of this:

Agricultural production and food security

Climate change will have an impact on precipitation, temperature and access to water for agriculture in vulnerable areas. The drought-hit areas in Sub-Saharan Africa could increase by 60–90 million hectare, which can result in losses of USD 26 billion by 2060 (in 2003 prices). This exceeds the bilateral aid to the region in 2005. Other developing regions such as Latin America and South Asia will also experience a downturn in farming produce and more poverty in rural areas. This could lead to up to 600 million more being hit by malnutrition by 2080.

Pressure on the water resources and reduced water safety

Changes in outlet patterns and glacier melt-down will mean less water for irrigation purposes and for settlement areas. Around 2080, there is a risk that a further 1.8 billion people will live in areas with a shortage of water. Central Asia, northern China and the northern part of South Asia face enormous problems in connection with the glaciers in the Himalayas drawing back – with a speed of 10–15 metres per annum. Seven of Asia's large river systems will experience an increase in the water current in the short term, and subsequently a reduction as the glaciers gradually melt. The Andes region is also at risk of the same fate. Countries in regions that already experience a great deal of pressure on water resources, e.g. the Middle East, may experience that the access to water is substantially reduced.

Rising sea level and increased exposure for climate disaster

The sea level will rise in line with the speedy glacier melt-down. Global temperature increases of 3–4 °C can result in 330 million people having to relocate permanently or temporarily due to floods. More than 70 million people in Bangladesh, 6 million in Lower Egypt and 22 million in Vietnam could be affected. For small island states in the Pacific and Caribbean, the effects could be catastrophic. Warmer sea water will also give rise to more violent tropical bad weather. More than 344 million are currently exposed to tropical cyclones, and more intense bad weather can be devastating for many countries. A billion people, who live in urban slum areas on inclines exposed to landslides or by riverbanks with a risk of flooding are extremely vulnerable.

Ecosystems and biodiversity

The climate changes are already in the process of changing ecosystems. Around half of the world's coral reef systems are threatened by destruction as a result of warmer sea water. Increasing acid content in the oceans is another threat to marine ecosystems in the long term. Ice-based ecosystems have experienced damaging effects as a result of climate changes, particularly in the Arctic region. A number of animal and plant species will adapt, but the climate changes will happen too quickly for many species. A 3 °C increase in the temperature can lead to 20–30 per cent of the species on land becoming extinct.

Human health

The rich countries are already in the process of preparing their public health systems to deal with future climate shock as a result of more extreme summer and winter weather, with the heatwave in Europe in 2003 as an example. However, the greatest effect on health will be in the developing countries, as a result of the poverty and the public health systems' limited ability to handle the problems. Deadly diseases can become more widespread. For instance, a further 220–400 million people will be exposed to malaria – an illness that already claims about a million lives a year. Dengue fever is already claiming more lives than before, particularly in Latin America and parts of East Asia. The climate changes can lead to this illness becoming even more widespread.

From UNDP Human Development Report 2007/2008 changed seasons and harvesting due to a shorter growing season. However, many have not made any changes, partly due to lack of capital and credit for procuring new, adapted seeds.

A calculation of the costs related to climate change for rich and poor countries indicates that poor countries have caused climate-related damage for rich countries of USD 740 billion, while rich countries have caused the poor countries USD 2,300 billion worth of damage[2]. It can therefore be claimed that the rich countries' climate debt to poor countries is a staggering USD 1,560 billion, or almost NOK 9,000 billion. This estimate is more than the developing countries' total foreign debt.

The climate change problems are mainly caused by high energy consumption based on oil, gas and coal. Reducing poverty in developing countries will require economic growth in these countries and the global energy consumption will consequently increase. According to the International Energy Agency (IEA), the developing countries will account for 74 per cent of the growth in energy consumption between 2005 and 2030. China and India alone will make up 45 per cent of the growth. Simultaneous to this, it is still the case that energy consumption per capita is much higher in developed countries than in developing countries.

The clash between environmental considerations and economic growth must be resolved through a global reorganisation of the energy systems that reduce the CO_2 emissions. The great challenge is to prevent such a reorganisation undermining poor people's opportunities for economic and social development. The challenge is greatest in the densely populated growth economies such as China and India, where rapid development of pollutive coal-based power stations in the next 10 years will generate enormous amounts of CO_2 for at least the next 60 years. Rich countries account for 70 per cent of the historical global CO_2 emissions, but it is expected that the developing countries will account for more than half of the global emissions in 2030.

According to the IEA, improving energy efficiency is the quickest and cheapest way to meet the increasing energy demand and reduce growth in the emissions in the short term. However, even with such initiatives, the IEA's calculations show that the CO_2 emissions will be 25 per cent above the current level in 2030 if no other initiatives are implemented. In order to achieve a far higher reduction in the emissions major initiatives are required, such as higher pricing of emissions and focus on research and technology development on a large scale. A more extensive quota system, focus on CO_2 capture and storage, increased use of renewable energy sources and, for many countries, increased use of nuclear power, are all initiatives that, according to the IEA, will have to be used to achieve the target of a 50–85 per cent reduction in emissions by 2050. It is this target that the UN's climate change panel believes must be achieved in order to prevent a temperature increase of more than 2 °C. According to the report by Sir Nicholas Stern, a reduction by this amount will, nevertheless, mean almost an 80 per cent chance of exceeding the target of 2 °C temperature increase.

Figure 7.1 Industry contributes to economic growth and harms the environment.

2. Srinivasan, U. Thara, Susan P. Carey, Eric Hallstein, Paul A. T. Higgins, Amber C. Kerr, Laura E. Koteen, Adam B. Smith, Reg Watson, John Harte and Richard B. Norgaard (2008): The debt of nations and the distribution of ecological impacts from human activities. Proceedings of the National Academy of Sciences of the United States of America. Published* online 22 January 2008. http://www.pnas.org/cgi/content/abstract/0709562104v1

7.2 The poor lack energy security

Today around 1.6 billion people have no access to electricity. A total of 2.5 billion people mainly base their subsistence on traditional energy sources. Indoor pollution from cooking and heating is a main cause of illness and premature deaths among the poor part of the population. The World Health Organisation estimates that 1.5 million people die every year, mainly women and children, due to indoor pollution. The fact that the majority of the poor live in the rural areas where infrastructure is poor, creates special challenges with regard to access to energy.

The commercial basis for large-scale energy supplies in the rural areas does often not exist. Giving the rural poor access to energy therefore requires decentralised, small-scale solutions. The concern is more related to providing access to good energy systems than increasing the energy consumption. Giving the poorest people access to energy does not necessarily lead to major increases in greenhouse gas emissions.

Considerations of Commission

The Commission with the exception of Kristian Norheim considers climate change to be the principal threat today, and it is also the most important challenge for the fight against poverty in developing countries. The way energy supply is currently organised in many countries creates a fundamental conflict between growth and poverty reduction on the one hand and a reduction in climate change on the other. The main challenge is to facilitate a transition to cleaner energy consumption in a way that benefits the developing countries. This requires substantial national and international efforts.

The Commission, with the exception of Kristian Norheim, believes that the Norwegian Gov-

Box 7.2 Poverty reduction and the environment: Win-win or contradiction?

One of the basic assumptions in the Brundtland Commission's report was that the environmental problems were to a large extent due to poverty, and that these would only be solved by overcoming the poverty problems.

More recent research shows that the interactions between poverty and the environment are more complex than this, and that some environmental problems are inversely proportional to poverty. The development of manmade climate changes, is due for instance to increased prosperity and increased consumption of fossil fuels. Other environmental problems such as acid rain and environmental poisons can be small at both ends of the economic prosperity axis, but big at a mid technological and economic development level.

There are also examples that solutions chosen for an environmental problem can strengthen the poverty problems. Creating natural reserves to protect biodiversity in tropical rain forest areas can for example lead to the ousting of poor population groups from their resource base. Changing from open-pit latrines to WCs can mean considerable increases in water contamination of lakes that are used as sources of drinking water, if the sewer is not cleaned. Over-consumption of irrigation water and increased erosion and water pollution from mechanized agriculture are also examples of environmental problems that increase with an increase in intensity and growth in agricultural production. This illustrates that new technology together with new knowledge and better information on the links between development and the environment are needed to create sustainable development. The examples show the complex links between the environment and poverty.

From the article «Poverty, development and the environment – 10 years after Rio» by Karin Refsnes[1]*, former director of the Department for Energy and the Environment in the Research Council of Norway*

[1] Research Council of Norway (2002): *Fattigdom, utvikling og miljø - 10 år etter Rio. Article by Karin Refsnes, former director of the Department for Energy and the Environment. http://www.forskningsradet.no/servlet/Satellite?c=GenerellArtikkel&cid=1058874345909&pagename=Forskningsradet Norsk%2FGenerellArtikkel%2FVisMedHovedtilhorighet

ernment in its policy formulation must to a larger degree view both the climate and energy as global public goods, i.e. goods that benefit all countries, people and generations. This would entail Norway reducing its own climate emissions as well as contributing at an international level to give developing countries better opportunities for economic growth and increased energy consumption. Our contributions would have to comprise reducing our own emissions, compensating for climate emissions in other countries as well as financing research, technology development and technology transfers that increase poor countries' possibilities for development.

The Commission, with the exception of Kristian Norheim, also believes that Norwegian energy policy cannot be regarded as disconnected from the climate obligations, but must be a key instrument in achieving Norwegian climate change obligations and in the development of a stronger international coordination of energy security and considerations for the climate. The energy sector is a vital contributor to the world succeeding in its attempts to reduce climate emissions and develop clean energy.

Commission member Kristian Norheim believes that climate change is a natural part of the earth's development and has always happened. However, warnings from various quarters indicate that human activity contributes to the acceleration or alteration of the natural course of climate change. These warnings must be taken seriously, and must be dealt with by global cooperation. Rational initiatives to reduce global CO_2 emissions and with a general environmental benefit to the poorest should be prioritised in preference to expensive symbolic initiatives. The poor countries are the least equipped to face the consequences of climate change, independent of whether they are man-made or not, partly because they are poor. Expensive solutions to fit the West would be meaningless in light of the situation of these countries. A realistic climate policy must recognise that the global growth in prosperity will continue, which entails both increased energy consumption and increased transport needs. The best approach in climate policy entails priority being given to cuts in CO_2 emissions where the greatest effects can be achieved. The global benefit from reducing emissions from old coal fired power plants in Central Europe or China is far greater than what we would get out of large sums used for marginal improvements in modern and already clean industries in Norway. In parallel the Government should prepare the way for the development of new and more

Figure 7.2 Warmer weather makes it difficult to cultivate the land in many places.

environmentally friendly technologies that could cut costs of future CO_2 reducing measures. In developing such technologies emphasis should be placed on solutions that can reduce emissions and simultaneously improve energy supply and/ or public infrastructure. Transfer of technology to poor countries would be an important measure to include these countries in the common global efforts that are needed to meet the climate challenges. Norwegian obligations related to the Kyoto agreement should be honoured through measures that are cost effective and benefit the environment without introducing special environmental restrictions that would reduce Norwegian competitiveness. A new climate agreement should have a global basis to prevent different framework conditions in different countries which would make it attractive for industries to move to countries that stand outside the agreement. The main challenge for developing countries is to create a basis for the development of prosperity, which has to be based on private sector development and opportunities for the creation of wealth. The main precondition for such a development is access to energy. The world, including the poor countries, will greatly increase its demand for new energy over the coming decades. Norway should assume a leading role in creating environmentally friendly technology instead of a leading role in symbolic policies.

7.3 Norway's climate obligations and development

According to international regulations emissions shall be accounted for in the country where it takes place. Official figures for Norwegian emissions therefore include emissions from the production of goods that are exported to other countries while emissions from the production of goods imported to Norway are not included in the figures.

Total Norwegian climate gas emissions amounted to 55,0 million tonnes CO_2-equivalents in 2007. This is 1,5 million tonnes or 2,7 per cent more than in 2006 and it represents an increase of close to 11 per cent compared with the 1990 figures. After 2 years of reduction in emissions, partly due to a reduction in the production of crude oil, they increased in 2007 to a level slightly above the level of the earlier top-year of 2004.

Onshore industries, oil- and gass activities and road traffic are the greatest contributors to climate gas emissions with 72 per cent of total emissions in 2007.

Norwegian emissions total around 12 tonnes per capita, which is higher than in the rest of Europe, but lower than in the USA and Russia and the industrialised countries as a whole. The emissions in poor countries are well below those in the industrialised countries. Emissions in the poorest countries are approximately 0.1 tonnes per capita. In China, which is in the process of taking over from the USA as the world's largest emission country, the emissions are approximately 5 tonnes per capita (compared with more than 20 in the USA).

With regard to the petroleum activity in Norway, it is the emissions from the petroleum extraction that are registered as Norwegian greenhouse gas emissions. The use of the same oil and gas is recorded in the importing countries' emission accounts. The total greenhouse gas emissions from Norway account for approximately 0.15 per cent of the global emissions. Use of exported oil and gas from Norway amount to more than 10 times this, or approximately 1.5 per cent of the global emissions[3]. By comparison, African countries account for a total of 2 per cent of the global emis-

Table 7.1 Climate targets and target achievement in selected European countries (percentage of increased emissions since 1990)

	Kyoto target 2008–2012	Actually achieved (2005)
EU15	- 8	- 2.0
Germany	- 21	- 18.7
UK	- 12.5	- 15.7
Denmark	- 21	- 7.8
Sweden	+ 4	- 7.4
Spain	+ 15	+ 52.3
Norway	+ 1	+ 8.8

Source: EEA 2007

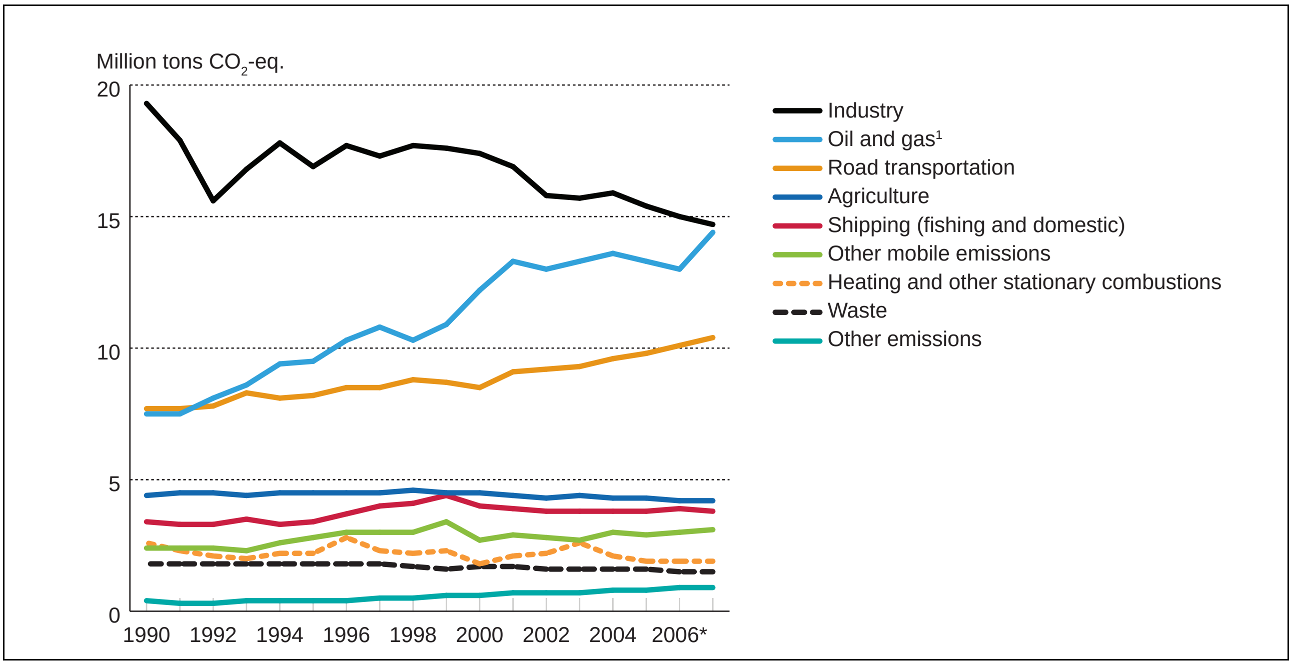


Figure 7.3 Emissions of climate gases by source. 1990–2007. Million tonnes CO_2-equivalents

[1] Oil- and gas activities comprise offshore activities as well as onshore gasterminals.

Source: Gas emission accounts from Statistics Norway and The Norwegian Pollution Control Authority.

Box 7.3 The Climate Convention and Kyoto Protocol

At the UN Environment and Development Summit in Rio de Janeiro in 1992, principles and guidelines were agreed for the international climate effort and the UN's Framework Convention on Climate Changes (the Climate Convention) was adopted. A total of 188 countries have ratified the convention, and have thereby accepted the main goals of stabilising the concentration of greenhouse gases in the atmosphere at a level that will impede harmful, manmade climate changes.

The Kyoto Protocol negotiations were finalised and adopted at the third meeting during the Climate Convention in Kyoto in Japan in December 1997. The protocol is legally binding and covers quantified, fixed-term emission reductions for the industrialised countries. The aim of the protocol is to reduce the total emissions of the most significant greenhouse gases to at least 5 per cent below the 1990 level during the period 2008–2012. The emission obligations only apply to industrialised countries that are included in Annex I of the Climate Convention. The percentage varies from country to country. A total of 37 countries – all rich, Western countries, including most of East Europe, except the USA – have endorsed the agreement.

In addition to emission reductions in a country, the protocol permits a country to honour its obligations by:

- Joint implementation (JI). It is possible to achieve credits for investing in emission-reducing projects in countries that have obligations.
- The Clean Development Mechanism (CDM). It is possible to achieve credits for investments in projects in developing countries with no obligations. CDM has two purposes: to help developing countries achieve sustainable development and help industrialised countries to fulfil their own emission obligations cost effectively.
- International quota trading

Weaknesses of the Kyoto Protocol

The Kyoto Protocol will only have a marginal effect on greenhouse gas emissions, roughly a 1 per cent global reduction.

The Kyoto Protocol was dramatically weakened when the USA, which alone stands for approximately 36 per cent of the industrialised countries' emissions, decided not to take part. Australia initially took the same stance, but has now agreed to ratify the agreement. The Protocol currently only sets ceilings for the emissions for barely 30 per cent of the global emissions. International air traffic is not covered by the agreement.

In the group of countries with quantitative obligations, the emissions as a whole appear to have stabilised. Most countries in Eastern Europe saw a marked reduction in greenhouse gas emissions as a result of lower economic activity after the collapse of the Soviet Union, while the majority of Western countries have had an increase in emissions. Developing countries, including China, India and Brazil, have no emission obligations in the Kyoto Protocol. These countries have had the strongest emission growth since 1990. An important question for future international agreements is how to include these countries.

One weakness of the Kyoto Protocol is that it is too generous with the total emission ceilings, whereby the quotas are not a sufficiently scarce commodity. During the negotiations, Russia and the Ukraine were allocated quotas that were the same as their 1990 emissions. However the emissions in these countries have fallen considerably since the gradual introduction of a market economy. This means that, for instance, Russia will probably be able to sell emission permits for around 600 million tonnes of CO_2 without making any emission reductions on its home ground. This is a quota sale that is probably enough to cover the quota needed in the whole of Western Europe, and Western Europe will thus not need to make further emission reductions in order to achieve the Kyoto target. When a country has a quota that is bigger than the business-as-usual emissions (BAU emissions), the country is referred to as having hot air.

Another weakness of the Kyoto Protocol is that to the degree the agreement entails emission-limiting measures being introduced in the countries with emission ceilings, this can in turn lead to emission-intensive activities being relocated to countries with no emission ceilings – a phenomenon known as carbon leakage. Carbon leakage of this nature will weaken the environmental impact of the agreement further.

A further weakness of the Kyoto Protocol is that it permits the trade of quotas between countries with and without emission obligations (CDM). This trading does not necessarily lead to fewer emissions globally and it is therefore problematic that countries with emission obligations can honour their obligations by using this system.

Furthermore, the Kyoto Protocol will not stimulate the necessary development of emission-friendly technology.

Source: Holtsmark, Bjart (2005) Kyoto-avtalen – nyttig eller bortkastet? (Kyoto agreement – useful or a waste?) Economic Survey 3/2005 http://www.ssb.no/emner/08/05/10/oa/200503/holtsmark.pdf
Stern (2006): Stern Review on the economics of climate change. http://www.hm-treasury.gov.uk/Independent_Reviews/stern_review_economics_climate_change/sternreview_index.cfm

sions, while the low-income countries together account for 7 per cent.

Through the Kyoto protocol, Norway has pledged to increase the emissions in 2008–2012 by not more than 1 per cent in relation to 1990. According to the Government's White Paper on the climate situation, the level of ambition shall be increased by ten percentage points to 9 per cent below the 1990 level.[4] The long-term goal, as described in the climate agreement, is a 100 per cent reduction (carbon neutrality) in 2030. This entails Norway ensuring global emission reductions that correspond to Norwegian emissions of greenhouse gases. Norway shall also be a driving force in the effort to achieve a more ambitious and more extensive climate agreement after the Kyoto period, based on the goal that the global temperature increase shall be kept below 2 °C compared with the pre-industrial level. According to the UN's Climate Change Panel, this will require global reductions of between 50 and 85 per cent between 1990 and 2050.

Norway is a long way off achieving the Kyoto targets without extensive quota purchases abroad and even further from the more ambitious targets that all parties in the Storting, with the exception of the Progress Party, have endorsed in the climate agreement.

Model projections by Statistics Norway show that unless extra measures are initiated, CO_2 emissions in Norway in 2050 will be around 25 per cent higher than in 1999. Any technological progress that contributes to the growth impacting the climate less than previously is not included in these calculations.

7.4 Costs of global emission cuts: Financing and distribution

The Kyoto Protocol in its current form is not adequate for achieving Norway's international climate policy goals as specified in the White Paper on Climate Change and the Climate Change Agreement between all parties represented in the Storting, except the Progress Party. The protocol is also far from adequate for achieving the emission reductions recommended by the UN's Climate Change Panel. In the best case scenario, the Kyoto Protocol will help to reduce rich countries' emissions by 5 per cent, and the global emissions by 1 per cent[5].

The UNDP's emission path for achieving a 50 per cent reduction in climate emissions is based on industrialised countries reducing emissions by 80 per cent and developing countries by 20 per cent in relation to the 1990 level. A great deal of uncertainty surrounds how high the temperature increase will be under various emission scenarios. Global warming and the melting of glaciers have so far taken place quicker than projections suggest. Based on the precautionary approach, this uncertainty gives reason to give almost 85 as opposed to 50 per cent as a goal for the global emission reduction. In this case, industrialised countries must reduce the emissions dramatically by more than 80 per cent, and probably more than 100 per cent, which is Norway's long-term goal. Such reductions will entail substantial contributions to emission reductions in developing countries.

The Policy Coherence Commission has commissioned work to outline some principles for financing based on the Stern report's estimate corresponding to 1 per cent of the world's GDP. The calculations show that if the world's 10 richest countries share this expense, this will constitute 3 per cent of their annual GDP, or around NOK 60 billion for Norway. If the world's 20 richest countries share the cost, the calculations indicate expenses amounting to 1.5 per cent of the GDP for each country, or NOK 30 billion per annum for Norway.

Baer et al[6] has developed another model for allocating and financing emission reductions and adaptations to climate changes, based on the target of 2 °C. The proposal aims to protect developing countries' needs for economic growth, at the same time ensuring that they take their fair share of the emission cuts. According to these calculations, Norway is the 8th largest contributor per capita. The authors believe that the global emissions must be reduced by around 6 per cent per annum from

3. Excluding deforestation. Note that if deforestation is included, the emission figures would change significantly. Norway's emissions are halved (Source: Statistics Norway), while Indonesia and Brazil become two of the world's five largest emission countries (Source: UNDP 2007).
4. White paper no. 34 (2006-2007) Norwegian climate policy
5. Holtsmark, Bjart, 2003. Russian behaviour in the market for permits under the Kyoto Protocol. Climate Policy 3 4, 399-415.
6. Baer, Paul, Tom Athanasiou and Sivan Kartha (2007): The Right To Development In A Climate Constrained World. Heinrich-Böll-Foundation Publication Series On Ecology Volume 1. http://www.ecoequity.org/docs/TheGDRs-Framework.pdf

Box 7.4 The Stern Report

In July 2005, Gordon Brown, then Minister of Finance in Great Britain, commisioned Sir Nicholas Stern to lead a team of researchers to describe the economic consequences of the climate changes and make suggestions, both domestically and globally, how to address these consequences. The result was a 700-pages report that was published on October 30th 2006. The Stern Report was not the first report to calculate the economical consequences of the climate changes, but it has become the most influential report.

The main conclusion in the report is that approximately 1 per cent of the World's annual GDP will have to be spent on curbing the climate changes to ensure that global warming does not precede 2–2.4 degrees celcius. Further, it is claimed that inaction now will lead to a reduction in the World GDP of up to 20 per cent compared to if efforts are being put in place now. Stern says that climate change is the largest and most influential market failure the world has ever seen.

The advantage of starting with activities that yields the highest benefit is underlined. Energy efficiency and protection of forest are examples of such activities. But more long term efforts must also be initiated now. The Stern report points to three main tools against climate changes:

1. a common international price on carbon emissions which will contribute to global cost efficiency
2. research on low-carbon technologies to reduce costs, and
3. Removal of barriers to behavioural change, such as transaction costs and lack of information.

The report is used worldwide to spur action against climate changes. But the report is not uncriticised. Some economists have criticised the methods used by Stern to calculate the costs of climate change, and disagree with Stern's conclusions. Stern's argument is based on risk analysis. The main argument is that the risk of large-scale consequences from climate change is larger than the cost of acting now. His critics disagree with his assessment of risk. However, Stern has also received strong support from other leading economists who state that his main conculsions are correct. In any case, after the Stern report it has become more difficult to defend a wait-and-see attitude towards climate change.

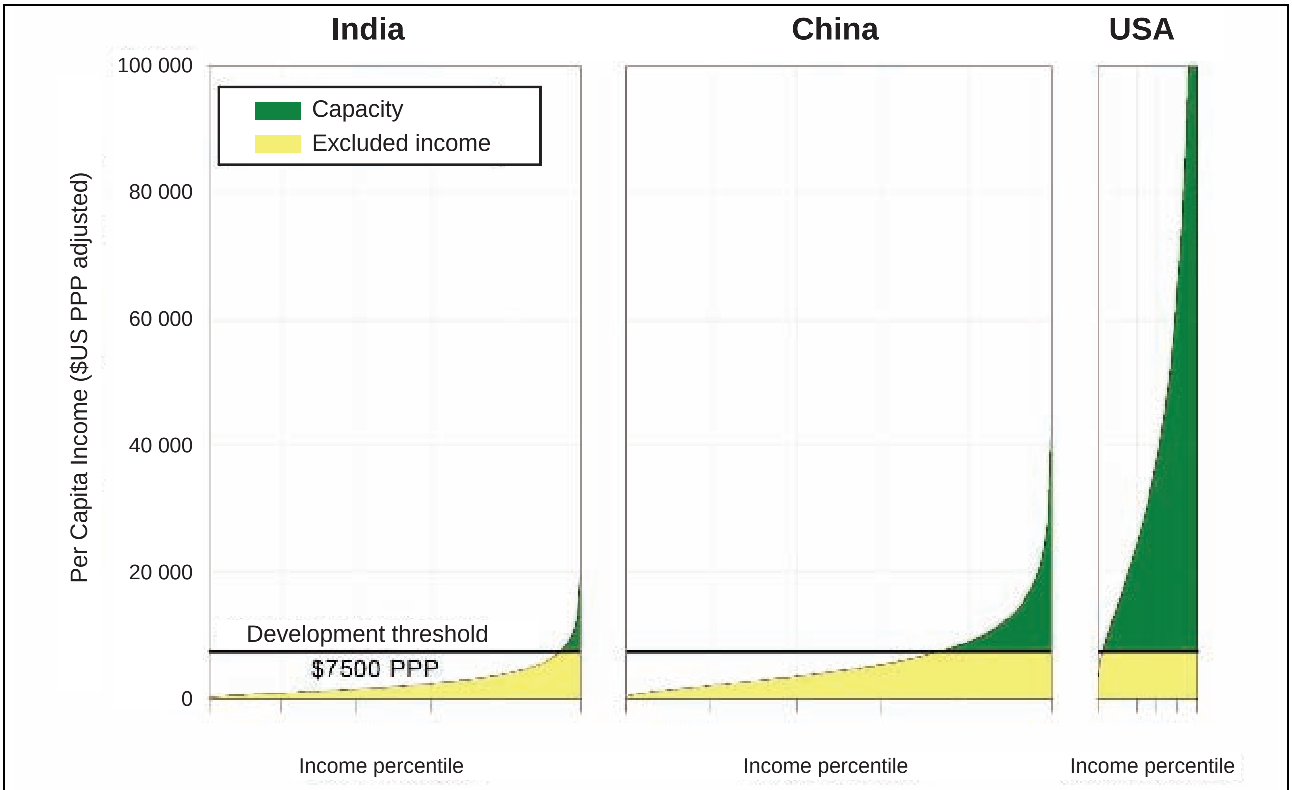


Figure 7.4 Allocation responsibility for the climate changes based on emission responsibilities and ability to pay. India, China and the USA

Source: Baer et al, 2007.

2015 in order to reach the target of 80 per cent reduction (from the 1990 level) by 2050.

Historical emission responsibility or «emission debt» is calculated based on the emissions since 1990. Ability to pay entails poor people achieving a minimum of welfare before responsibility is imposed on them to contribute to climate change reductions. According to this model, individuals with incomes and emissions above the development threshold (both in rich and poor countries) have an obligation to pay for the global costs incurred by the climate crisis.

Figure 7.4 shows the capacity of three countries to pay to resolve the climate problem. The green fields are the share of the population with an annual income exceeding USD 7,500 and which, according to Baer et al (2007), bear a responsibility to pay. The yellow fields are the share of the population that is below this development threshold.

Figure 7.5 shows the proportion of a country/region's emissions for which it has a responsibility (the green fields).

Not surprisingly, the USA emerges as the country with the highest «emission debt», but other rich countries with high emissions and a high level of affluence, including Norway, will according to this approach also have to pay for national as well as global emission reductions and contribute funds for adaptations. Perhaps more surprisingly, the calculations show that developing countries with high growth and an increasing middle class – such as China and India, will be net recipients of emission financing from rich countries, while at the same time they would also be obliged to pay for emission reductions. The poorest countries, however, have no obligations other than to ensure development for their people.

Based on this model, with 0.07 per cent of the world's population, Norway should take on approximately 0.4 per cent of the global obligations. If it is assumed that the global costs for emission reductions are 1 per cent of the world's total gross national product (ref. Stern), which is approximately USD 690 billion, Norway's share will be USD 590 per capita. The total costs will be in the region of NOK 15 billion per annum.

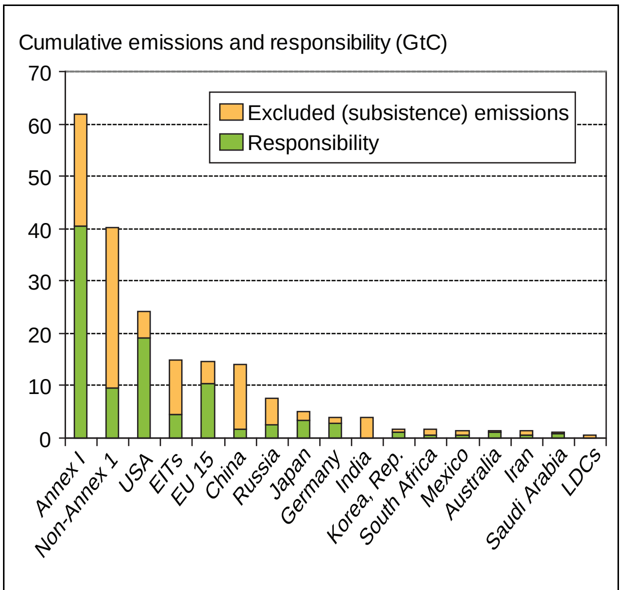


Figure 7.5 Responsibility for greenhouse gas emissions based on emission debt and ability to pay. Selected countries and groups

Source: Baer et al, 2007.

7.5 Climate policy instruments

The instruments in the climate policy shall reduce the global emissions of greenhouse gases and aid the adaptation to unavoidable global warming. Instruments for aiding the adaptation to climate changes include measures such as building flood barriers in order to avoid floods in countries such as Bangladesh, or securing the water supply in countries that will be exposed to more droughts.

The instruments for reducing the greenhouse gas emissions can roughly be divided into three main groups[7]. *The first group* covers measures to increase the price of climate emissions, such as duties and quota trading. The purpose of increasing the price of emissions is to make climate-friendly production and consumption relatively cheaper, and in this way change the behaviour of companies and consumers towards lower climate emissions. There are strong indications, however, that increasing prices of greenhouse gas emissions is not sufficient to initiate the extensive development of climate-friendly technologies that are needed to achieve the required emission reductions of between 50 and 85 per cent of the 1990 level (see Stern 2006, chapter 16 for an overview). The strong price increase in oil in 2008 may help to accelerate this process if the price remains high.

The second group of instruments covers measures to promote technology development, including Government funding of research and development.

7. Stern (2006): Stern Review on the economics of climate change. http://www.hm-treasury.gov.uk/Independent_Reviews/stern_review_economics_climate_change/sternreview_index.cfm

The third group of instruments cover measures to facilitate energy economising, for example, building regulations and other rules and standards, labelling schemes and information initiatives, in addition to removing various subsidies that work to increase emissions (subsidising of transport, energy-intensive industry etc.).

Norwegian climate policy has so far mainly been based on price instruments, primarily duties. In the future, however, the climate policy will to a growing extent be based on quota purchases abroad, even if the climate agreement states clearly that two thirds of the emission reductions shall be on a national basis. In 2007, Norway signed up to the EU quota system, which is more stringent than Kyoto because it (mainly) rules out the purchase of hot air from the previous Soviet Union. Norway's new quota system[8] entails an improvement over the original system from 2005. One weakness of the new system is, however, the special treatment of new gas power plants when allocating quotas. This can lead to more investments in gas power plants than is profitable from an economic perspective, and thus weaken the competiveness situation for renewable power production. Neither does the new quota system give any incentives for CO_2 handling[9]. Some of these weaknesses will be corrected if Norway implements the notified changes in the EU quota system.

The purchase of quotas abroad also takes place via the Kyoto mechanisms JI and CDM (see the box on Kyoto). When quotas are purchased from countries with binding emission restrictions (JI), the host country's national emission obligations will be correspondingly intensified. In this case the emission reduction is reasonably effective and controllable[10]. CDM quotas, however, are aimed at countries with no emission obligations. Some positive aspects of this are that CDM has the potential to reduce the global carbon leakages, that the private sector gets involved through an attempted use of market mechanisms, and that developing countries can introduce new environmental technology. On the other hand, uncertainty surrounds the actual emission reductions from a number of CDM projects. Particular uncertainty surrounds whether CDM projects would have been carried out anyway (additionality). In this case, the purchase of CDM quotas in the worst case scenario can lead to emission increases. In the best case scenario, CDM would help to curb the emission growth in the developing countries.

From an environmental point of view, CDM is the «next best» solution in relation to developing countries taking part in the international quota trading system. On the other hand, this must entail the developing countries agreeing to set a ceiling on their own emissions, which they have been opposed to so far. Considering that half of the world's greenhouse gas emissions will soon emanate from developing countries, the emission reduction targets will not be reached unless the large emission countries such as China, India and Brazil take part in a binding collaboration that also sets a ceiling on their emissions. The UN's climate conference on Bali in 2007 showed that the developing countries have a deep mistrust of the rich countries' genuine willingness to reduce the emissions, and fear that they will be faced with fewer opportunities for growth if they commit themselves to a collaboration. Norway's contribution to the conservation of the rain forest – which does not release quotas – can improve the confidence in rich countries undertaking genuine obligations. This can give Norway a position as a mediator towards a future establishment of a new international climate agreement.

7.6 A development-friendly climate policy

An assessment of whether Norwegian climate policy is coherent with poverty reduction should be based on whether the initiatives lead to sufficient emission reductions, given that poor countries and groups are most exposed to the negative effects. Whether the initiatives that are introduced limit or facilitate the potential for economic development for poor countries and population groups should also be considered.

Norway should, both out of consideration for the poor in developing countries and the importance of strengthening global public goods, have an ambitious climate policy. Stern suggests that the costs linked to reducing the climate problems will amount to 1 per cent of the global GDP. This is an estimate of the costs if the initiatives are implemented now. The longer they are delayed the

8. Proposition to the Odelsting no. 66 (2006–2007) Om lov om endringer i klimakvoteloven m.m. (Legislation on changes in the Greenhouse Gas Emission Trading Act etc.)
9. Hagem, C. and K.E. Rosendahl (2007): Høring om det norske kvotesystemet (Consultation on the Norwegian quota system), Economic Forum No. 5
10. Glomsrød, Solveig and Knut Einar Rosendahl (2007): CO_2-reduksjoner hjemme eller ute? (CO_2 reductions at home or abroad?) The Klima magazine no. 1 2007, Center for International Climate and Environmental Research - Oslo http://www.cicero.uio.no/fulltext/index.aspx?id=5520

higher the costs. In other words, a great deal is to be gained financially by acting now. If the emissions are not reduced now, the reductions will need to be greater later. According to IPCC, the peak in global emissions must be reached in 2015, and then they must fall. This means that the development leading up to 2015 is vital.

One per cent of the GDP in Norway corresponds to around NOK 20 billion. The current level is well below this figure, although it is difficult to quantify how much resources are used on emission reductions. In order to get large developing countries to commit to a binding emission target, rich countries need to make a more than proportional contribution to the financing. Norway's role as a mediator is a positive step in the right direction, but the efforts must be escalated and Norway must involve more countries in this work.

The weaknesses in the Kyoto Protocol mean that it is risky to focus exclusively on international agreements to solve the problems. Great uncertainty surrounds the effect of the CDM initiatives. In a poverty perspective, it is relevant that CDM is primarily carried out in developing countries with high levels of manufacturing, which rules out the poorest countries. Transaction costs linked to the approval of CDM projects is a barrier to such projects in the poorest countries. They also reduce the recipient country's revenues from such projects compared to in quota trading. There is therefore reason to be cautious with regard to whether development policy goals can be achieved through climate policies, with the exception of countries with large emissions such as China and India. The most important contribution of the climate policy should be to reduce the emissions, in order that the fight against poverty is not undermined.

Developing countries that do not get CDM investments also miss out on technology transfers and an inflow of financial resources. This can undermine the fight against poverty. Norway can go further in supporting the formulation of CDM projects in Africa, and in contributing to their realization.

None of the instruments in the climate policy will be able to cover the high costs incurred on poor countries due to the climate changes. Estimates of adaptation costs in developing countries for preventing droughts, diseases, and food and water shortages vary from USD 10 billion to USD 100 billion per year, and will probably increase even if global warming is successfully reduced. The developing countries' position is often that rich countries should pay since they account for most of the historical emissions.

The international cooperation for adapting to climate changes is organised under the United Nations Framework Convention on Climate Change (UNFCCC). They have initiated the Nairobi Work Programme in order to improve the knowledge of various aspects of adaptation. The Least Developed Countries are devising national adaptation plans, which will form the framework for adaptation measures in these countries. Financing of these plans is mainly through three different funds under the UNFCCC: Special Climate Change Fund (SCCF), Least Developed Countries Fund (LDCF), and Adaptation Fund. All are presently administered by the Global Environment Facility (GEF). There are also bilateral, regional and multilateral financing mechanisms.

As it is difficult to separate traditional development projects and adaptation projects, it is difficult to estimate exactly how much funds go towards adaptation measures. Since 2005, Norway's contribution to SCCF has been NOK 51 million, and NOK 47 million to LDCF. This is allocated from the aid budget. GEF reports that the fund for the Least Developed Countries is fully financed in relation to the demand, but that SCCF does not have funds for all projects applied for.

Although it is difficult to quantify the costs for developing countries of Norwegian greenhouse gas emissions, it is reasonable to assume that Norway, as with other industrialised countries, is not even close to compensating for this. The current arrangements under UNFCCC are insufficient. It is important, however, to emphasise that it is not just the size of allocations that needs to be taken into consideration. The capacity in developing countries to handle these adaptation projects must be strengthened so that the allocations can be used optimally.

The international climate negotiations are currently characterised by a deep mistrust between the poor and rich parts of the world. This mistrust must be overcome if we are to have a hope of getting the fast-growing developing countries such as China, India and Brazil to assume emission obligations. Norway can play a key role here. The success of a new climate agreement depends on whether the differences can be bridged. If the developing countries are to take on emission obligations these must be seen as fair and provide opportunities for crucial improvements in welfare. A climate agreement that covers all countries is an ambitious goal. If it is not successful, it will nevertheless be important to maintain the rich countries' responsibilities in order to reduce their own emis-

Figure 7.6 The Maldives are particularly exposed to climate change effects like extreme weather and a higher ocean level.

sions and finance climate measures in developing countries.

Considerations of the Commission

There are good grounds to claim that the climate changes affect the poorest the hardest and that reducing poverty can exacerbate the climate problems if economic development continues to be based on unclean fossil energy sources. The interests of the poor must be protected through limiting global warming to 2 °C. At the same time a new climate agreement must ensure poor countries' right to the development and the opportunity to adapt to the changes that will take place with global warming at 2 °C or more.

The Commission notes that the Norwegian greenhouse gas emissions are among the highest in the world, and that they are increasing. Norwegian climate policy in practice is at variance with the goal of reducing poverty. Increased emissions in the rich part of the world prevent the necessary growth and development in the poor countries. With regard to contributions in addition to the obligations of the Kyoto Protocol, the effort is not on par with the goals and needs. As with other OECD countries, Norway has not contributed sufficiently to cover the costs incurred on poor countries due to climate changes.

This report assumes that Norway is committed to the goal of limiting global warming to 2 °C. This goal will not be achieved with the emission reductions that have so far been committed internationally. A new international agreement must therefore outline measures that give a reduction in emissions closer to 85 than 50 per cent from the 2000 level by 2050.

A climate solution requires the developing countries to be involved in binding emission reductions. The developing countries' willingness to take part, however, will depend on rich countries taking a considerable financial and technological responsibility for the climate change problems. By taking on financial obligations, Norway can spearhead mediation between rich and poor countries in the efforts to establish a new international climate agreement.

The commitment to provide NOK 15 billion for the conservation of the rain forest is an important signal that rich countries can and should pay the main part of the climate change bill. However, the Commission, believes it is important that the financing of the conservation of the rain forest is additional to increased efforts to reduce world poverty. Financing of the conservation of the rain forest must be undertaken in ways that does not legitimize the financing of purely emission reducing measures over the aid budget. Any financing of the conservation of rain forest over the aid budget needs to be in line with OECD/DAC's ODA rules.

Although many countries now focus on the cleaning and storage of CO_2, the Commission recommends that Norway takes the initiative in IEA for an assessment of the effect on energy prices and the global energy security of allowing the so far undiscovered energy resources in the Arctic to remain unused.

Commission member Kristian Norheim does not share the other Commission members' views expressed in the preceeding 6 paragraphs.

7.7 Norwegian energy policy and development

7.7.1 Energy production in Norway

Oil and gas production accounts for 20 per cent of GDP and 50 per cent of export revenues, and is therefore Norway's most important source of income. Norway is a major player in the global markets for fossil fuels, which are the domineering markets for energy globally. Only 0.07 per cent of the world population lives in Norway, but Norway accounts for 3.5 per cent of the world's oil production and 3.1 per cent of the world's gas production. This means that Norway is one of the world's top ten exporters of oil and gas.

The oil production in 2007 was 2.6 million barrels per day and is expected to gradually decline in the coming years. Gas sales on the other hand are experiencing strong growth, which means that the petroleum production is expected to increase in the years ahead. From making up more than 35 per cent of the Norwegian petroleum production in 2007, the gas production will probably increase to more than 50 per cent in 2017.

According to Eurostat and the UN Norway is one of the world's top ten hydropower producers and the largest in the EU/EEA area. More than half of the energy consumption in Norway is based on hydropower. The large production of petroleum products in Norway, however, means that hydropower's share of the total energy production is less than 5 per cent. Production of renewable energy from sun or wind has so far been limited. In recent years, Norway has become a major producer of silicon and solar panels, which contributes to energy production in a number of European countries that subsidise solar energy (particularly Germany). The oil and gas production on the Norwegian shelf has increased considerably and accounts for 95 per cent of energy extraction (see figure 7.7).

The energy policy's effect on poverty reduction cannot be considered in isolation from the climate changes. The Norwegian oil and gas production does not only contribute to energy security, but also to the weakened poverty reduction in developing countries through climate change related disasters.

The current known oil, gas and coal reserves amount to around 150 times today's annual global emissions of greenhouse gases. The climate goals are not likely to be achieved without the consumption of fossil fuel being reduced, which means that a great deal of oil and gas must remain in the ground.

Norway's known oil and gas reserves correspond to approximately 250 annual Norwegian emissions at the current level.

The authorities have a large degree of control over the Norwegian oil and gas production through regulating access to the petroleum resources, as a co-owner in a number of fields and as a majority shareholder in the largest operator company on the Norwegian shelf, StatoilHydro. In the 1970s, the Storting agreed on a moderate rate of extraction of the oil resources with a ceiling of 90 million tonnes of oil equivalents in the year. This ceiling was broken in 1989. Since 1989, the rate of oil extraction has increased considerably and been disengaged from political goals for reduced CO_2 emissions. The increase is partly due to the oil companies steadily being allocated new areas, as well as managing to extract increasing amounts of oil from existing fields. Today, the political control is primarily in the allocation of new fields and not least regarding the opening of new areas for exploration activity[11].

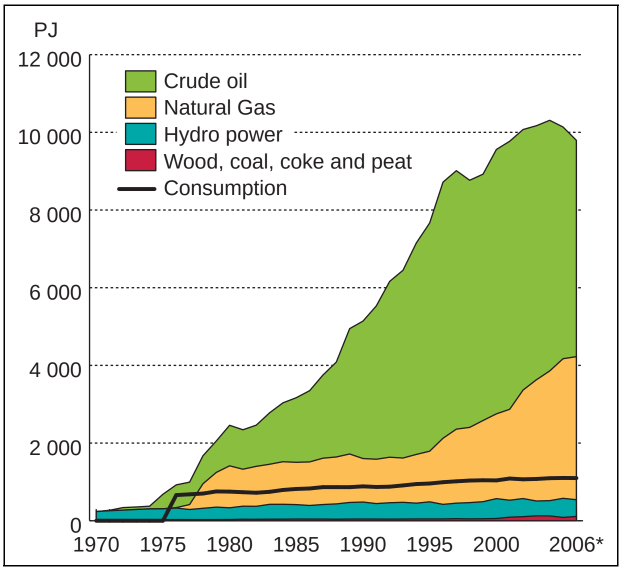


Figure 7.7 Growth in extraction and consumption[1] of energy goods in Norway. 1970–2006. PJ

1 Including the energy sectors, excluding foreign shipping.
Source: Energy statistics, Statistics Norway, Norwegian Petroleum Directorate and NVE.

11. Arnstad, Marit (2003): Oljemiljøet, miljøet og den politiske beslutningstakeren (The oil environment, the environment and the political decision-makers). In Ims, Maiken and Fredrik Engelstad (red.) Olje og makt. Makt- og demokratiutredningens rapportserie (The power and democracy study report series), Report 56, March 2003 http://www.sv.uio.no/mutr/publikasjoner/rapp2003/rapport56/index.html Willoch, Kåre (2003): Oljemakt på hjemmebane – myter om oljepolitikken (Oil power at home – myths on the oil policy). In Ims, Maiken and Fredrik Engelstad (red.) Olje og makt. Makt- og demokratiutredningens rapportserie (The power and democracy study report series), Report 56, March 2003 http://www.sv.uio.no/mutr/publikasjoner/rapp2003/rapport56/index.html

7.7.2 Oil price development and significance for the developing countries

Import of oil is a major expenditure for many developing countries. The oil price has shown major fluctuations in the past 30 years, and multiplied from below USD 20 a barrel at the end of the 1990s to more than USD 140 a barrel for a period in 2008 before falling again.

The price increase led to Norway's export revenues from oil increasing by 26 per cent in 2005 despite the export volume falling by 4.5 per cent in relation to the previous year. This price increase has negative consequences for many oil-importing countries, and the poorest and the most heavily-indebted countries are the hardest hit. In 2005, G8 agreed to write off the debt for 20 of the poor countries in Africa. The IEA has calculated that the extra costs that the said poor countries have incurred due to high oil prices are eight times higher than the debt that was cancelled[12].

A study conducted by the African Development Bank shows that 28 countries in Africa now use more than 10 per cent of their total import expenditure on oil[13]. The increase in both food and oil prices has created major challenges for the efforts to reduce poverty, improve food security and create macroeconomic stability. The consequences for the individual countries' economic situation have until recently been limited, but are now being noticed more and more clearly. According to the IMF[14], a prolonged period at the current or a higher price level will put a strain on many countries' balance of payments. Budget balances are under pressure and inflation is increasing, which affects the poor.

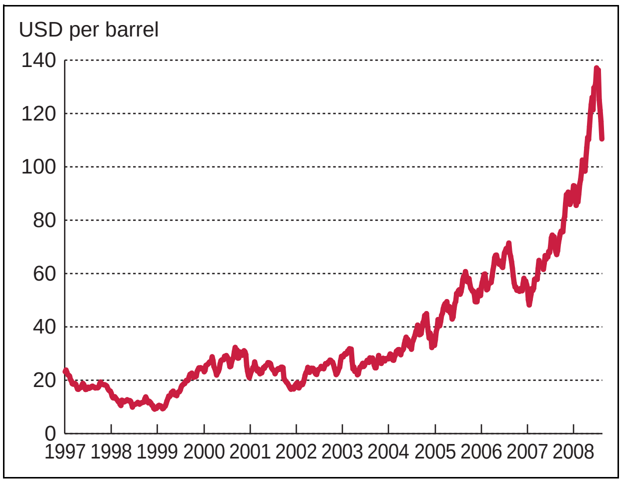


Figure 7.8 Average international oil price 1997 – 2008

Source: US Energy Information Administration.

7.7.3 Norwegian players and «Oil for Development»

StatoilHydro is the largest oil company in Norway with a growing foreign involvement. Half of the company's investments in 2006 were made abroad. StatoilHydro contributes to the oil production in low and middle-income countries with low standards of living and high levels of corruption, such as Nigeria (no. 158 on the UNDP's Human Development Index, HDI, and no. 142 on Transparency Internationals corruption index, CPI), Algeria (HDI no. 104, CPI no. 84) and Azerbaijan (HDI no. 99, CPI no. 130). The company has recently withdrawn from Iran, after 9 years of activity.

It is, however, difficult to estimate the overall development effect of the total Norwegian political and commercial activity in the oil and gas sector, but the economic potential linked to developing oil and gas is of course extensive. For example, StatoilHydro's activity in Angola generates up to NOK 3.2 billion in tax revenues for the country. By comparison, Norwegian aid to Angola is approximately NOK 150 million a year.

Much of the development effect of foreign investments within petroleum depends on national supplier industries being developed and tax revenues being generated that are redistributed through public expenditures to, for instance, health and education services. Many developing countries have considerable petroleum resources, which gives the potential for major revenues to the Government. However, experience shows that these countries often do not spend the oil revenues on reducing poverty or improving living conditions for the population, not least because the Government's revenues are not depending on a high level of knowledge and a good distribution policy.

To what extent Norwegian players' foreign involvement can contribute to political changes that increase the development effect of the companies' economic activity in the countries is therefore of significance.

12. Taken from the Norwegian Petroleum Directorate's magazine Norwegian Continental Shelf no. 2-2006, interview with Fatih Birol, analysis director in the International Energy Agency (IEA).
13. High Oil Prices and the African Economy, Concept paper prepared for the 2006 African Development Bank Annual Meetings Ouagadougou, Burkina Faso.
14. Food and Fuel Prices—Recent Developments, Prepared by the Fiscal Affairs, Policy Development and Review, and Research Departments, IMF

In September 2005, the Norwegian Government launched Oil for Development (OfD), which is a further development of assistance within the Norwegian petroleum sector that has already been in existence for almost 30 years. The focus here has been extended from technical assistance within resource management to also include environmental and financial management, with good governance integrated as a main theme throughout the entire initiative. Through Oil for Development, a considerable escalation has taken place in the financial support for bilateral aid within the petroleum sector.

The OfD focus consists of:

– A strengthening of the Norwegian bilateral aid to countries that demand Norwegian expertise and Norwegian experiences from the petroleum sector
– A stronger profiling of good governance and management of petroleum resources in our global work in this area.

Oil for Development has a broad base and puts great emphasis on transparency in petroleum management.

As part of the initiative, the Norwegian involvement in relevant international fora such as the World Bank, IMF, relevant UN bodies and the Extractive Industries Transparency Initiative (EITI) will be strengthened. A website is also being planned where the tax revenues from the Norwegian continental shelf and details of Norwegian companies' payments to other host countries will be given. This initiative will help Norway to lead the way through a best practice with regard to transparency in petroleum management.

The purpose of the OfD initiative is to help petroleum-producing developing countries get out of a situation in which the countries do not manage to translate the oil and gas resources and the revenues from the petroleum activity into improved living conditions for the population.

Figure 7.9 Using fossil energy contributes to climate changes and economic growth.

The OfD activities are demand-driven. The countries themselves must want to learn from Norwegian experiences. It must be possible to ensure that all interested developing countries with significant petroleum resources are made aware of Norwegian experiences through exchange visits, seminars and adapted courses. Such an offer is short-term, has a limited economic scope and will not be bound to a more long-term and extensive cooperation.

Norway will also be able to offer a more long-term and extensive cooperation in a small selection of countries in order to strengthen their capacity to manage the resources and revenues. The cooperation with these countries will be much more extensive and binding, and will therefore be subject to a more stringent selection process.

An independent evaluation of Norway's aid within the petroleum sector shows that this form of aid in particular has helped improve legislation and regulations in the petroleum sector in the recipient countries that are relatively young oil nations. The petroleum-oriented aid has not had an explicit goal to reduce poverty, despite this being a main goal for Norwegian aid policy in general. However, neither does the evaluation say that Norwegian aid in this field has not helped reduce poverty. The recommendations from the evaluation are that this form of aid should have a broad approach in order to be successful. This entails the environment, financial management and good governance being key elements of the focus.

The evaluation has not considered whether the Oil for Development has suppressed the focus on environmentally-friendly energy sources. A study on this should therefore be undertaken in order to see whether Norway should have used its resources more beneficially.

Within the hydropower sector, SN Power has established itself as a significant Norwegian player in a number of countries. The company was jointly founded by Norfund and Statkraft in order to increase Norwegian expertise and technology transfers for profitable hydropower projects in developing countries. Statkraft's main focus outside Europe is the company SN Power. SN Power runs large-scale hydropower plants in Peru, Chile, Philippines, Sri Lanka, Nepal and India. Three new plants in Chile and India are under construction. The purpose is commercial profits and contributions to sustainable development in the respective countries. With regard to two of the projects, SN

Box 7.5 Oil for Development

In September 2005, the Norwegian Government launched Oil for Development (OfD), which is a further development of aid within the Norwegian petroleum sector that has already been in existence for almost 30 years. The focus here has been extended from technical assistance within resource management to also include environmental and financial management, with an good governance integrated as a main theme throughout the entire initiative. Through Oil for Development, a considerable escalation has taken place in the financial support for bilateral aid within the petroleum sector.

The background for this initiative is that a number of developing countries have a large potential for production of petroleum products. However, it seems to have been difficult in many of these countries to translate these incomes into economic and social development. The lack of transparency and effective public management systems has led to corruption and inefficient production. Norway, with its long tradition of public management of petroleum production, coupled with good distribution mechanisms, is in a particularly good position to cooperate with developing countries in this field. Norway cooperates through OfD with 24 countries in 2008.

The OfD-initiative is based in the Ministry of Foreign Affairs, Ministry of Petroleum and Energy, Ministry of the Environment and Ministry of Finance, with the Ministry of Foreign Affairs acting as coordinator for the interdepartmental cooperation. Norad coordinates and quality checks the implementation of the initiative, in close cooperation with Norwegian specialist and management institutions.

OfD has its base in the Ministry of Foreign Affairs, Ministry of Petroleum and Energy, Ministry of the Environment and Ministry of Finance, with the Ministry of Foreign Affairs acting as coordinator for the interdepartmental cooperation. Norad will coordinate the implementation of the initiative. Representatives from these ministries will form a separate steering group. Norwegian specialist and management institutions with relevant expertise and experience will be brought in, including the Norwegian Petroleum Directorate, the Norwegian Pollution Control Authority, Petrad and Intsok.

Power has been granted CO_2 quotas corresponding to emissions of 0.5 million tonnes of CO_2 per annum, which the company can sell. One of these projects, Allain Duhangan in India, is controversial locally and has been criticised by non-governmental organisations for lacking additionality, i.e. that it would have been realised also without carbon credits[15]. Statkraft also owns the company Nordic Hydropower AB, which in turn owns 20 per cent of Theun-Hinboun power station in Laos. The power station has been criticised for having a negative impact on the environment and the local community[16].

The share capital for SN Power is in excess of NOK 4 billion, half of which is from Norfund, i.e. from Norway's aid budget. This is the largest aid-financed capital injection in a Norwegian company ever. Nevertheless, SN Power has no requirements with regards to investments in the poorest countries. SN Power has activities in two low-income countries (Nepal and India), and only in one of the LDCs (Nepal). There are plans for activities in Mozambique, another LDC. SN Power ended an engagement in Uganda in 2007.

Norwegian energy aid to Mozambique and Nepal was evaluated in 2007, but the activities of SN Power were not covered by the evaluation. The evaluation concluded that the cooperation with Nepal has been successful while the experiences from Mozambique are more mixed, particularly with regard to the economic sustainability of the projects. One objection to the energy aid in general was that the projects often neglect key objectives of the development policy, such as poverty reduction, gender equality, good governance and the environment. The focus on hydropower and oil is aimed at economic growth, and to a limited extent directly at the energy needs of the poor. The energy aid has only to a limited extent been aimed at energy sources such as wind, sun and biomass, despite that this may also contribute towards reduced poverty and climate problems.

However, it can be claimed that when the activity contributes to economic growth, it also puts the recipient countries in a better position to adapt a poverty-reducing distribution policy, if they really wish to do so. The ongoing electricity crisis in South Africa illustrates this point. The lack of tradi-

15. The Association for International Water Studies (FIVAS) refers to this criticism in an article written by Alan Preston, which is available at: http://www.fivas.org/sider/tekst.asp?side=244
16. The Association for International Water Studies (FIVAS) refers to this criticism in this link: http://www.fivas.org/sider/tekst.asp?side=61

Box 7.6 Mali Folk Centre

One example of a successful model for electrification in rural Africa is the project of the Nordic Folk Centre for Sustainable Energy in Mali, with initial financing from Danida in 1998.

Mali faces major challenges in its energy supply but has a huge potential for renewable energy. The country has an average of 2,500 hours of sun per annum and a radiant-flux density of up to 6kWh/m2 per day. Wind also has a large potential, with average wind speeds of 3–7m/s in the north and west. Large parts of Mali will never be linked to the main grid because the population density is too small to make the connection profitable, but sun and wind power enable electricity production wherever it is necessary.

Mali Folk Centre's approach to development and renewable energy solutions is based on local energy planning and direct participation from the local community. The sun and wind department focus on technical training among the local population to run and maintain small-scale installations, and locally-adapted mechanisms for income generation are included. The projects typically include solar panels for water pumping, lighting in schools, public places and clinics, where fridges are also installed to store vaccines and other medicines.

Another department works on modernising the use of bioenergy through training women to use more energy-efficient stoves and biogas. Together with tree planting, this is a vital contribution to preventing deforestation and droughts. Financial advice to small and medium-sized companies within renewable energy and energy-efficiency are also included. The project also includes general training within sustainable natural resource management.

The Nordic Folk Centre is currently building a new, similar centre in Uganda.

(Source: www.malifolkecenter.org).

tional electricity does not only affect industry and affluent townspeople, it also affects the urban poor and as many as 50,000 people are in danger of losing their job as a result of the lack of electricity. The result will be reduced economic growth and poorer conditions for many poor people. Better access to electricity will also reduce the price of electricity for the poor and improve the potential to create more jobs.

7.7.4 Norway and the international collaboration within oil and energy

As an energy nation, Norway can influence the development internationally of the energy sector, through active participation in and support for international political initiatives.

Norway is a member of the International Energy Agency (IEA). The IEA was founded during the oil crisis in 1973–74 as a counterweight to OPEC, and aims to provide energy policy advice to the 27 member countries, including the USA. The IEA has gradually developed into a central collaboration forum on global energy challenges. Secure supplies is still an important collaboration area, but the climate changes have led to increased focus on clean energy.

One of the initiatives with focus on renewable energy is the Johannesburg Renewable Energy Coalition (JREC), which is a collaboration that follows up obligations made during the World Summit for Sustainable Development (WSSD) in 2002. JREC has a mandate to work with policy development for the increased production of renewable energy. The coalition is headed by the EU Commission and Morocco and Norway are members. Another network that was established in Johannesburg in 2002 is the REEEP initiative – the Renewable Energy and Energy Efficiency Partnership, registered as an international NGO financed by national authorities. Norway is a major contributor.

The EU Commission has in many ways taken the lead in the development of renewable energy globally. It has established a global market-driven fund, the Global Energy Efficiency and Renewable Energy Fund (GEEREF), which will make it possible for donors and private investors to finance small and medium-sized renewable energy projects and energy-efficiency projects in ODA-approved developing countries. The initiative was launched by the EU Commission during a meeting for the Climate Convention in Nairobi in November 2006. GEEREF is regarded as an important contribution to fulfilling the obligations from the summit in Johannesburg in 2002.

The EU Commission also plays a key role in REN21, which links authorities with international institutions, NGOs and industrial organisations from the energy, development and environmental sectors. The purpose is to facilitate an active dialogue on policy development in order to ensure a rapid global dissemination of renewable energy.

7.7.5 Biofuel

Biofuel also has a large potential to reduce greenhouse gas emissions. In order for bioenergy to have a positive effect on the climate, its production method is vital. To what degree biofuel actually contributes to a net reduction in emissions of greenhouse gases depends on a number of factors throughout the entire value chain. Through all parts of the chain – from the choice of cultivation area, raw material type and cultivation technique, via transport and refinement process to end use, the use of energy and emissions of greenhouse gases must be quantified. Net greenhouse gas gains will vary substantially between the different value chains. When, for example, palm plantations suppress the rain forest in order to produce oil for biofuel, the climate goals are undermined. Increased demand for biofuel has been one of the causes of the dramatic increases in global food prices seen in recent years, particularly in 2006 and 2007 (ref. chapter 4 on trade).

Increased consumption of biofuel in poor countries could limit the negative consequences of decreased terms of trade as a result of increased oil prices. However, in order for biofuel production to be compatible with long-term development and poverty reduction, values need to be re-allocated to the local community. All industries linked to the utilisation of resources have examples where multinational companies buy up tracts of land from the local population without ploughing values back into local development and where disgraceful working conditions are reported.

In order for the production of biofuel to be sustainable and contribute to poverty reduction, certification and labelling schemes must be developed. Extensive efforts are now underway to develop environmental and social standards for the production of biofuel and to establish international certification schemes. Together with industry and other civil society organisations, the WWF has developed voluntary standards for the sustainable production of palm oil, soya and sugar canes and is working on more general guidelines for biofuel. Among Governments, the EU and a few member countries (the UK and Netherlands) are spearheading the international development of obligatory standards. Various UN organisations are actively working on creating a common global standard. At the same time, more focus must also be given to developing second generation biofuel that does not use up valuable farming areas and contribute to an artificially high level of food prices.

Box 7.7 Bioenergy in Africa

In most countries in sub-Saharan Africa bioenergy makes up about 90 percent of the energy balance. An African household that uses wood and charcoal (3–4 kg per day) for cooking on open fire, has a consumption of primary energy comparable to an average Norwgian household (approximately 20.000 kWh), but the energy efficiency is only at a few percentage. The problem is thus not foremost access to energy, but rather a very low degree of energy efficiency. A transition from traditional to modern bioenergy would improve the conditions for the poor, reduce their energy costs and reduce the over explotation of the forests. Traditional, ineffective use of bioenergy is the most important cause of deforestation in Africa. The solution can be found in modern, effective use of bioenergy. Only intermittently will it be possible and effective to exchange this energy source with other energy sources.

Considerations of the Commission

Although Norway, on its own, contributes to increased energy security through the export of energy, it is vital to the global climate development that the world's nations reduce the energy consumption globally and turn the consumption towards sources with no emissions. The Commission believes it is a paradox that Norway as an energy nation makes such a small contribution to international policy development and research and development within topics that relate to global energy security. Norway must therefore step up its efforts to develop an international energy policy and become a more important contributor in international arenas that work with global energy challenges.

Oil for Development is a key instrument for Norwegian aid in the petroleum field and is broadly aimed at strengthening the administration of the petroleum sector in developing countries. Norwegian companies' commercial interests in countries that Oil for Development regards as partner countries are, however, increasing. This may conflict with the intentions of Oil for Development. It is therefore important that the authorities make a clear distinction between the goals it wants to achieve through the petroleum-oriented aid, and the commercial activities of the companies.

A strong civil society is vital for community participation and the democratic distribution of resources. In Norway, the foundation in democratic institutions and the interaction between authorities, industry and civil society has been important in the development and management of the oil industry. The trade union movement and environmental organisations have played a very important role.

Support to organisations that work to protect and promote the environment, local communities and workers' rights is therefore of great importance and must form part of the Norwegian oil and development effort.

As part of the Norwegian aid effort, Norwegian players have contributed to the energy area in developing countries primarily through hydropower expansion and aid to the oil and gas sector in resource-rich developing countries. Norway has to a lesser degree focused on the fact that the poorest, particularly in Africa, have absolutely no access to electricity. The poor are, to a large extent, dependent on traditional energy sources, which are both a health hasard and inefficient. The Commission believes Norwegian energy aid must be reviewed with a view to strengthening the poverty-orientation and the sustainability.

SN Power's involvement in the hydropower sector in some developing countries can contribute to a win-win situation with both reduced greenhouse gas emissions, economic growth and reduced poverty, but can also lead to major conflicts in relation to the local population and nature. The considerations related to returns and development effects can, however, prove to be difficult and controversial. It cannot be assumed that all profitable projects take the necessary considerations to development. The Commission believes major requirements should be set for development effects with regard to investments funded by aid.

Commission member Kristian Norheim does not share the views of the Commission expressed in the 6 previous paragraphs.

Projects that are partly financed by commercial players, such as Statkraft, and partly by aid, as in the case of SN Power, mean that it is even more important that the goals of the activity are clear and well communicated both internationally and in Norway.

Effective energy utilisation is vital to economic development in poor countries, but the expansion of national energy systems is not necessarily aimed at ensuring the energy needs of the poorest population. The energy solutions will often be very different in towns and urban areas and in the rural areas where the majority of the poor live. The poorest need access to energy in order to meet their basic needs such as cooking, lighting, water pumping and the refrigeration of medicines at local health facilities. Major improvements in quality of life can be achieved through simple technology based on renewable energy.

Norway helps to increase the global energy security through its considerable export of energy. This is positive for developing countries that are net importers of energy and which are served by the lowest oil price possible. Through relevant international fora, Norway can help to facilitate collaborations that enable more stable and predictable energy markets and to developing countries to a lesser extent being affected by energy price shocks. The IEA is the most natural collaboration partner here. Norway can also to a greater extent help to develop a strategic collaboration between Governments, aid partners, industry and international financial institutions on long-term and sustainable energy planning in poor countries. The effect of the energy policy on poverty reduction cannot, however, be considered in isolation from the climate changes. Our energy production and export do not only contribute to energy security, but also to an increase in global climate emissions. Commission member Kristian Norheim does not share the views of the Commission expressed in the last two sentences.

The majority of the Commission would like to note that the current known oil, gas and coal reserves correspond to around 150 yearly global emissions of greenhouse gases (at the current level). The climate situation is so serious that some of the petroleum resources must remain in the ground. The climate goals are unlikely to be achieved without the consumption of fossil fuels being reduced, which means that a lot of oil and gas must remain in the ground. Norway's known oil and gas reserves correspond to approximately 250 yearly emissions in Norway at the current level. It will reduce the greenhouse gas emissions somewhat if Norway waits until better cleaning technology is available to open new fields, and particularly if Norway can involve other oil-producing countries in this. Dramatic reductions in Norway's greenhouse gas emissions can also help trigger greater global reductions, as this would show that a rich country is willing to take the lead and make emission reductions. A signal effect is also given if Norway refrains from opening new areas of exploration.

A minority in the Commission, consisting of Julie Christiansen, Gunstein Instefjord, Kristin Røymo, Malin Stensønes, Camilla Stang, Håvard Aagensen and Kristian Norheim, believe that it is doubtful that reducing the rate of the oil extraction on the Norwegian shelf will lead to significant reductions in CO_2 emissions globally because other producing countries will increase their production correspondingly. Higher CO_2 emissions from these alternative sources can then worsen the situation through higher emissions per unit.

The Commission with the exception of Kristian Norheim believes it is important that technology is developed and implemented to capture and store carbon emissions for the oil and gas production that will take place. To this end, it is crucial that the emission price is high enough for this to pay off.

The Commission with the exception of Kristian Norheim would like to point out that both the developing countries and Norway's future energy needs to an increasing extent must be covered by more effective energy use and a greater share of renewable energy. Norwegian energy policy has not been sufficiently adapted to this. Large energy volumes can be made available through more effective energy application by the end users. Although these are often profitable measures, the users frequently lack the necessary knowledge and motivation to implement such measures. Although the energy consumption can be made more efficient by a factor of four or more, and although energy efficiency is one of the initiatives that has least impact on the environment for obtaining the necessary energy services, it generally receives less attention and financing than the production of new energy.

The government-owned energy foundation Enova gives up to four times higher grants for the production of renewable electricity than what is allocated to helping increase access to energy through efficiency measures. Production of renewable electricity from the sun or wind has not been attractive in Norway due to poor framework conditions. Countries such as Sweden and England give high subsidies and facilitate the development of new technology and expansion of the market, which in the long term will reduce wind power costs. The German Government's subsidies for solar power have made the Norwegian solar cell venture REC possible.

The petroleum revenues have given Norway a financial latitude that can be used for the adaptation of new energy technology (separate details below), and an international position that can be used to affect other countries. These opportunities are not sufficiently exploited.

It is the opinion of the Commission that biofuel will be a necessary part of an overall strategy to prevent the rapid escalation in climate changes. For many developing countries, biofuel also represents a unique opportunity to be less dependent on petroleum imports, and is also an energy solution with extremely good possibilities for local production and resource exploitation. At the same time, it is being reported that rain forest areas are being cleared and burned, and wetlands are being drained to provide room for plantations to grow raw material for biofuels, which releases large amounts of stored carbon to the atmosphere. The Commission also believes it is important that Norway in this regard works actively to secure an international certification system in order to guarantee that bioenergy products meet environmental standards. Biofuels have a large potential both economically and environmentally, but the development in the area must be sustainable and must not impair global or local food security.

Commission member Kristian Norheim believes that to improve economic conditions in developing countries and contribute to a more peaceful world, Norway must contribute to securing access to stable and affordable energy. According to the IEA energy use will increase by 55 per cent by 2030. Fossile fuel sources will comprise around 85 per cent of this growth. In this scenario it is difficult to see how reductions in CO_2 emissions can be achieved simultaneously. According to the reference path calculated by the IEA China and India alone will be responsible for 45 per cent of the increase in energy demand. 80 pere cent of all new energy production in China is based on coal. This entails increased living standards for millions of people and it cannot therefore be seen as a question of whether it is a right development path or not, but the question is rather how to handle it. Norway as an energy nation should contribute to good international solutions. Cleaning up «dirty» coal and gas energy plants is a contribution to reducing negative environmental effects, but at the same time it is a very energy intensive solution as it contributes to a reduction in the world's total energy resources at a time when they are needed for the future. Unfortunately areas such as nuclear power and geo-engineering are regarded as taboo in the contemporary energy debate. Geo-engeneering could be a useful mechanism in a transition phase – if 2 per cent of the sunlight could be deflected, the warming effect of a doubling of the CO_2 concentration could probably be neutralized. IEA has for the first time recommended increased use of nuclear power plants. The main reason for this is the fear of climate change as a result of CO_2 emissions. Many countries now regard uranium based nuclear power in a new light. Long term storage of the waste is still a challenge however. Research must therefore be undertaken to develop long term, environmentally friendly and cost effective alternatives. Norway's thorium reserves make it possible to explore further what potential this resource entails.

Box 7.8 The Low Emission Commission

The Low emission Commission was established by the Government in spring 2005. The Commission looked into how Norway can reduce national emissions with between 50–80 percent within 2050. The main conclusion of the Commission was that a significant reduction in Norwegian emissions within 2050 is necessary, doable, and not prohibitively expensive. Norway can without significant sacrifices become a climate-friendly country by mid-century. It was further concluded that, in line with the Stern Report, that it would be cheaper for society the earlier one starts.

The Commission concluded with two main general recommendations and 13 sector-specific recommendations to achieve this goal. The two main recommendations are implementing a long-term national effort on climate change information and support for development of climate-friendly technology. The specific sectors where the Commission made recommendations are transport, heating, agricultural and waste disposal, process industry, petroleum activities, and production of electricity.

The Low Emission Commission's report was used a basis for White Paper no. 34 (2006–2007): «Norwegian Policies on Climate Change».

7.8 Environmental and energy research

As commissioned by its member countries, the IEA has described a development path for how the global energy systems must be transformed in order to achieve the most ambitious goals of the UN's Climate Change Panel (450 stabilisation cases):

- Energy efficiency in the use of fossil fuels accounts for 25 per cent of reduced emissions
- Lower demand for electricity due to energy efficiency in buildings: 13 %
- Changeover to second generation biofuel in the transport sector: 4 %
- Increased use of renewable energy sources: 19 %
- Increased use of nuclear power: 16 %
- CO_2 capture and storage (CCS) in power production and industry: 21 %

The development path assumes a rapid development and phasing in of advanced technology, including technologies that are not currently commercially sustainable, particularly CCS and second generation biofuel. CCS has a major potential for cleaning CO_2 from the point of emission (industry, power stations etc.), which accounts for a total of 60 per cent of the total emissions. Without CCS, it would be completely impossible to reach the world's emission goals without a total re-adjustment of the world's energy consumption.

Norway is a net technology importer, but is a leading player within the fields of energy and the environment. The driving force behind this success has partly been the expansion of hydropower, subsequently the oil sector and in later years also solar energy, in a close collaboration between the public and private sectors. With regard to the EU's 6th framework programme, Norwegian research environments took part in a total of 30 per cent of the projects within the areas of the environment, climate and energy. Norway is also one of three countries that have initiated major CCS projects. Norway possesses unique expertise in CCS and according to an external assessment the Norwegian focus on technology development is of major importance for reducing the costs of such technology[17].

17. Danielson, Anders, Conny Hägg, Helene Lindahl, Lars Lundberg, Joakim Sonnegård and Joseph Enyimu (2007): En peer-review av norges politik för hållbar utveckling (A peer review of Norway's policy for sustainable development). http://www.regjeringen.no/nb/dep/fin/tema/Barekraftig_utvikling/Sammendrag-fra-peer-review-av-barekrafti.html?id=458363

The Low Emission Commission concluded that an increased focus on skills building and the research and development of climate-friendly technologies are fundamental to achieving effective reductions in emissions[18]. Among other things, they note that Norway has good specialist environments in these areas and natural conditions that give comparative advantages in order to develop this particular type of technology. Such technology development can, in the Low Emission Commission's opinion, be a contribution from Norway to the global technology effort that is needed to remedy the climate change problem and as an investment in business development for the future. A large and long-term focus on technology development can also have spin-offs in the form of more expertise and business development in Norway.

As long as agreements on climate emissions are not binding, public sector support for technology development in the intersectoral field of energy/climate will be particularly important. The uncertainty that the lack of obligations entails with regard to a future market for technology to reduce emissions acts as a brake on private investors' willingness to invest in new technology. A forward-looking focus on climate-related research and development can therefore be appropriate[19].

Energy and environmental research was one of four priority areas in the White Paper: «Commitment to Research»[20]. The left-centre coalition Government's vision is for Norway to be a world leader within the development of environmentally-friendly energy, and the strategy «Energi21» is aimed at facilitating an increased focus on research and development. The climate agreement in the Storting also entails an increased focus on research and development within the intersectional field of energy/climate. The Government announced an increase for 2008 of NOK 70 million for research on renewable energy and the treatment of CO_2. The plan is to increase this to a minimum of NOK 600 million per annum from 2010.

Before this increase, Norway's focus on research and renewable energy was very low. It

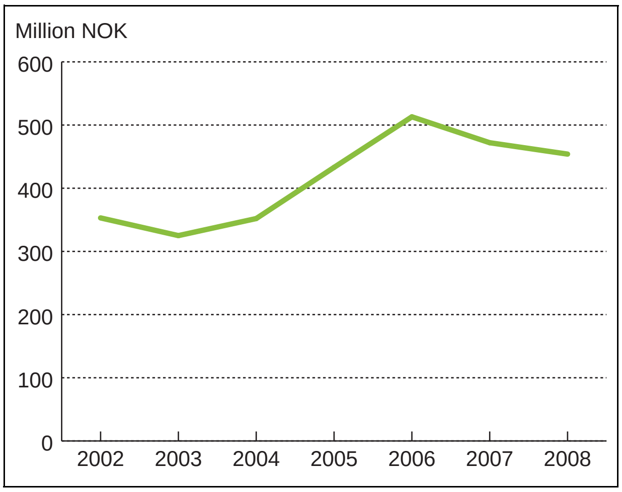


Figure 7.10 Ministry of Oil and Petroleum's R&D allocations, NOK million, measured in fixed 2005 prices

Source: NifuStep

corresponded to approximately 20–25 per cent of what was invested in the other Scandinavian countries. For the time being, the notified increase to the year's budget will not change this ratio to any noticeable degree. The annual analyses of the national budget carried out by NifuStep[21], showed that the allocations to research in the intersectoral field of energy/climate stagnated, with the exception of the period 2004–2006 when the focus was on petroleum research. NifuStep characterises it as particularly notable that there was no growth in the allocations to research for renewable energy and climate research, given that this has been a high political priority. It is especially the research and development allocations from the Ministry of Petroleum and Energy that are central to this prioritising. Figure 7.10 shows the development in this allocation.

Despite Norway's advanced position with regard to petroleum technology, the oil and gas industry is not very research intensive. In 2005, the industry spent less than NOK 2 billion on research and development, which is less than half a per cent of the industry's added value (gross product) of almost NOK 450 billion. By comparison, 1.5 per cent of Norway's total added value (GDP) was spent on R&D in the same year. The technology development within the industry has mainly been aimed at getting more oil and gas out

18. NOU 2006:18: Et klimavennlig Norge (A climate friendly Norway) http://www.regjeringen.no/nb/dep/md/dok/NOU-er/2006/NOU-2006-18.html?id=392348
19. Bye, Thorstein and Michael Hoel (2007): Klimabidrag fra Norge. (Climate contribution from Norway) Economic forum Nr. 5 2007. Samfunnsøkonomene
20. Ministry of Education and Research (2005): Commitment to Research. Report to the Storting no. 20 (2004-2005) http://www.regjeringen.no/nb/dep/kd/dok/regpubl/stmeld/20042005/Stmeld-nr-20-2004-2005-.html?id=406791
21. NifuStep (2007): Forskning og høyere utdanning i budsjettproposisjonen for 2007 (Research and higher education in the budget proposition for 2007), Report, 30 2007 NifuStep http://www.nifustep.no/norsk/publikasjoner/statsbudsjettet_2008

of the fields that are open. StatoilHydro carries out some research into climate-friendly technology, such as CO_2 capture and storage, but very little on developing renewable energy. It is therefore reasonable to claim that the authorities have not used their position as majority shareholder and the opportunities this gives for stimulating StatoilHydro to develop climate-friendly energy technology.

Developing new technology is in itself insufficient to reduce poverty in a sustainable manner. Existing and new technology must be used to reduce emissions and increase the access to energy in poor countries in general, and for poor groups in particular. The introduction of energy technology in developing countries will partly be safeguarded by the market, but as pointed out in chapter 8 on the knowledge policy, economic resources also need to be supplied from outside. Many of the technology initiatives for emission reductions will be expensive in relation to people's purchasing-power in many developing countries. Experiences from the health sector, among others, also show that use of patents can be a barrier to poor groups and countries gaining access to new technology.

The current international climate agreement (the Kyoto Protocol), which does not bind developing countries to reduce their CO_2 emissions, gives them few incentives to invest in emission-friendly energy technology. Poor countries will also be less willing to pay than rich countries with regard to initiatives whose effects are felt well into the future, such as CO_2-reducing initiatives, because poor people to a greater extent than the rich see the need to prioritise consumption today at the expense of consumption in the future. Stern (2006 p. 491) implies that it will cost USD 20–30 billion a year to introduce low-carbon technology in developing countries. Bruvoll et al (2007) indicates that Norway can be a frontrunner nation by setting aside money for this in a fund[22]. A number of large developing countries such as China and India struggle with local pollution problems. Initiatives that reduce local pollution as well as greenhouse gas emissions are possible.

The introduction of energy technology in developing countries also requires adequate infrastructural and technological conditions, as well as social and administrative expertise in the recipient countries. There is a large variation between developing countries regarding their development of an industrial structure, expanding a knowledge base in the form of the education and research/innovation sector and administrative institutions and governance. The poorest countries are weak in these fields. Norway takes part in a number of collaborations and provides aid within higher education and research in order to help build the knowledge base in the partner countries, but this is currently not a high priority.

7.9 Norwegian focus on environmental technology

The climate change problems cannot be solved without new technology. The Norwegian authorities have frequently proclaimed research on the climate/energy to be a priority area, without following up with sufficient resources. The authorities have failed to use Government ownership in the oil industry as an instrument to stimulate development of climate-friendly energy technology. It is reasonable to assume that technology development within the climate/energy sector is one of the areas where the unused synergies between Norwegian policy and poverty reduction are greatest.

There is a danger that steadily more stringent patent protection can undermine technology transfers to developing countries. This is covered in the chapter on the knowledge policy. Any barriers to transferring climate-friendly energy technology to developing countries will be at odds with Norway's self-interest. The EU Parliament agreed on a number of measures in 2007 to ensure the transfer of such technology to developing countries[23].

Considerations of the Commission

Norway has good research and technology environments in the area of energy and the climate in the university and university college sector, in research institutions and in the business sector. So far, no large-scale focus on knowledge and technology development has emerged, despite broad political support. Denmark and Sweden used 5–6 times as many resources as Norway on research into renewable energy.

The Policy Coherence Commission believes that Norway's strong position within the energy sector can and should be used to counteract global

22. Bruvoll, Annegrete, Torstein Bye and Mads Greaker (2007): Low emission Commission: No limits to growth? Economic forum no. 2 2007. Samfunnsøkonomene

23. EU (2007): European Parliament resolution of 29 November 2007 on trade and climate change. http://www.europarl.europa.eu/sides/getDoc.do?Type=TA&Reference=P6-TA-2007-0576&language=EN

warming, and that in the long term this will be economically profitable for Norway. The Commission believes this requires a considerable increase in the Norwegian focus on energy-related research and development.

7.10 Proposal on initiatives for the climate and energy policy

7.10.1 Climate policy that protects the right to development

1. The Commission with the exception of Kristian Norheim believes that Norway must work towards a climate agreement that covers all countries, which limits the global warming to a maximum of 2 °C, and which helps to level out inequalities in welfare and income. This entails poor countries being given latitude to increase their emissions and rich countries financing emission reductions in developing countries. Emission obligations and the financing of climate initiatives must be based on countries' historical responsibility and economic ability, and must protect the right to development for poor countries.
   - Norway should aim for agreements and solutions that ensure the execution and financing of emission reductions, technology development and adaptations in developing countries.
2. With the exception of Kristian Norheim, the Commission recommends that, until a climate agreement that sets a ceiling on the emissions in all countries is in place, Norway earmarks 1.5–3 per cent of its annual GNI, which is approximately NOK 30–60 billion per annum, for initiatives to reduce the greenhouse gas emissions both nationally and internationally. At the same time, Norway must work towards convincing the 10–20 other richest countries to earmark a corresponding share of their GDP for climate initiatives.
   - By 2050, Norway should become a low emission society with emissions that are at least 90 per cent lower than the current emissions. This will give us emissions per capita that are on a par with what the world average would be if we are to achieve the goal of limiting the global temperature increase to 2 °C.
3. Until a new climate regime is in place, Norway should concentrate the CDM quota purchase around initiatives that benefit the poorest and which contribute to development for the poorest. Norway should support initiatives for technology transfer to developing countries with large emissions in order to reduce growth in the greenhouse gas emissions. Relevant initiatives are the cleaning of coal power plants in countries such as China and India.

7.10.2 Energy policy and development

4. With the exception of Julie Christiansen, Camilla Stang, Gunstein Instefjord, Malin Stensønes, Kristian Norheim and Håvard Aagesen, the Commission recommends that Norway takes the initiative, out of consideration for the climate, for an agreement on freezing all extraction of new oil and gas deposits in the areas outside national jurisdiction, i.e. outside continental shelves and national economic zones. It is particularly recommended that Norway initiates negotiations linked to a moratorium for projecting oil and gas in the Arctic areas.
5. With the exception of Kristian Norheim the Commission recommends that Norway should take the initiative in the International Energy Agency to explore how energy prices and energy security are affected by the as yet undiscovered petroleum resources remaining in the ground.
6. The Policy Coherence Commission recommends that considerations to the climate and the energy needs of the poor are given a higher priority in the energy aid (including aid through Norfund/SN Power). More focus should also be given to the development of small-scale diversified energy systems based on effective energy utilisation of renewable energy.
   - Norwegian aid authorities should strengthen their energy expertise beyond hydropower and actively seek partnerships with private players with expertise in the development of small-scale local energy systems based on effective utilisation of local renewable energy sources.
7. The Policy Coherence Commission with the exception of Camilla Stang and Kristian Norheim recommends that Norway introduces a sales injunction on biofuel of 2 per cent initially, as an element in a comprehensive strategy that also includes a reduction of absolute transport needs and increased energy efficiency in the transport sector and parallel introduction of mechanisms that ensure sustainable production of biofuel with positive net greenhouse gas gains. Such mechanisms must include certifica-

tion of environmental sustainabilty, carbon accounts in the value chain and social sustainability standards.

8. With the exception of Håvard Aagesen, Malin Stensønes, Julie Christiansen, Kristian Norheim, Kristin Røymo, Camilla Stang and Gunstein Instefjord, the Commission believes that Norway should introduce a 5-year moratorium for allocating new exploration blocks on the Norwegian shelf. By then we will know the content of a new agreement and our new obligations.
9. With the exception of Kristian Norheim, the Commission thinks that Norway should work towards an international order on the treatment of CO_2 for all new fossil power stations from 2020. Norway and other OECD countries should spearhead and introduce such an order from 2015.
10. The world's poorest are the hardest hit also by unstable energy markets and high oil prices. The Commission therefore recommends that Norway as an energy nation participates actively in the work on international energy security and the development of more stable energy markets. An important priority of such a new effort would be to contribute to predictable and transparent energy markets and to set ambitious international goals for energy efficiency and transition to clean and renewable energy.

7.10.3 Environment and energy research

11. The Policy Coherence Commission recommends a considerable increase in the Norwegian focus on research within the climate, energy efficiency, renewable energy and environmental technology. The Norwegian focus on research into the climate, energy efficiency, renewable energy and environmental technology should be increased to a level at least on a par with the public and private sector efforts in petroleum research.
    – Public financing must be strengthened, and incentives should be developed to increase the energy industry's efforts in development of climate-friendly energy technology.
12. Commission members Lars Haltbrekken, Camilla Øvald, Audun Lysbakken, Hildegunn Gjengedal, Linn Herning, Kristin Røymo, Åsne Seierstad and Anne K. Grimsrud recommend that StatoilHydro extends its business strategy to become a leader within research, technology development and the production of renewable energy, so that the company is well equipped to meet future energy needs, both in Norway and the rest of the world.
13. Commission member Kristian Norheim believes that the Norwegian authorities should work actively for and support initiatives for technology development within clean and affordable energy, including hydropower, wind power, solar energy, bioenergy and thorium-based nuclear power. In addition, the Norwegian authorities should work actively for and support research within geoengineering – various initiatives to neutralise the warming effect of greenhouse gas emissions.

Chapter 8
Knowledge policy

8.1 Knowledge and poverty

Education, research and technology are fundamental to social and economic development. Economic growth and poverty reduction in the west during the last century were largely due to the development of new knowledge and technology. Research and innovation have created products such as antibiotics and fertiliser, with substantial consequences for global health and food security.

A number of trends have been evident within the field of education and research in the past 20 years[1]. We have seen an enormous increase in the world's knowledge production. The expenses for research almost doubled during the 1990s[2]. Furthermore, information technology, trade and migration have meant that the dissemination of knowledge is quicker than before. At the same time, the economic significance of knowledge has also increased. National and regional authorities are competing to be world leaders within research and innovation in order to ensure future economic growth, and private companies account for a steadily greater part of the research effort in the OECD area[3]. The fact that knowledge has become a strategic economic resource for companies and national authorities has in turn meant that knowledge to an increasing degree is privatised and commercialised. Applications for patenting new technology have, for instance, multiplied many times in recent years. At the same time, the prices of scientific periodicals have increased considerably. Both hard copy and Internet versions of these periodicals are a main source for researchers to keep up with the knowledge development.

The development in knowledge economics and knowledge-based competition creates both opportunities and limitations with regard to reducing the global poverty. New knowledge and technology has a large potential for improving living conditions and income potential for the poor. South Korea is one example of a country that has escaped poverty partly through a large-scale focus on education, research and technology transfers from abroad. The transfer of new technology, such as mobile telephony, can contribute directly to better living conditions for the poor (box 8.1). Mass production gives reduced costs and access to technology for groups with a small capacity to pay. A global trend towards more transparency and sharing of knowledge and technology (Open Access, Open Source, etc.) can help to ease and reduce the costs of knowledge transfer to poor countries.

On the other hand, the poorest countries are at risk of becoming marginalised from the knowledge economy. They do not constitute an attractive market in the knowledge economy and thus knowledge and technology relevant for them are produced to an insufficient degree. Further, they cannot purchase access to new developments within

Figure 8.1 Exchange of knowledge and education at all levels are important prerequisites for growth and development.

1. Barton, John H. (2006): Knowledge. International Task Force on Global Public Goods, Expert Paper Series No. 6. Chapter 1. http://www.gpgtaskforce.org/uploads/files/211.pdf
2. UIS: A Decade of Investment in Research and Development (R&D): 1990-2000. UIS Bulletin on Science and Technology Statistics. Issue No. 1, April 2004 UNESCO Institute for Statistics http://www.uis.unesco.org/template/pdf/S&T/BulletinNo1EN.pdf and UIS (2005): UNESCO Science Report 2005. UNESCO Institute for Statistics http://www.uis.unesco.org/ev.php?ID=6388_201&ID2=DO_TOPIC
3. OECD: Main Science and Technology Indicators (MSTI): 2006/2 edition. Organisation for Economic Cooperation and Development. http://www.oecd.org/document/26/0,3343,en_2825_497105_1901082_1_1_1_1,00.html

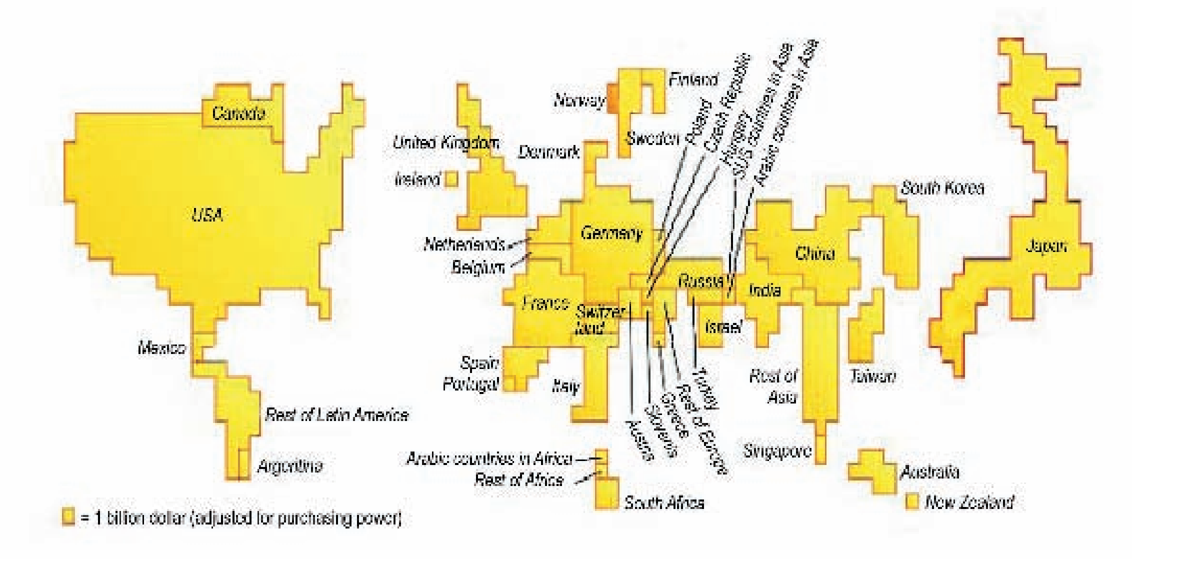


Figure 8.2 World measured in terms of research efforts. USD million, purchasing power-adjusted

Source: UNESCO. http://stats.uis.unesco.org/unesco/ReportFolders/ReportFolders.aspx

Box 8.1 Mobile way out of poverty

Mobile telephony is an example of new technology that within a few years has gone from being reserved for consumers with high purchasing-power to being used on a large scale in poor countries. In 2000, the UN set a goal that 50 per cent of the global population shall have access to a telephone by 2015. This goal was achieved after just five years. Today almost 80 per cent of the world's population live within range of a mobile network. Almost 60 per cent of the world's 2.5 billion mobile phone users live in developing countries. In Tanzania, 10 per cent of the dwellings have electricity, while 97 per cent of the population have access to a mobile telephone. In Nigeria, the number of mobile phone users increased from 30,000 in 2000 to 18.5 million in 2006.

The development of mobile telephony is an example of how new technology can improve the living conditions and income potential for the poor. Mobile telephones create business opportunities. Since only very few can afford their own mobile phone, entrepreneurs can establish profitable mobile rental companies.

The use of the telephones can also contribute to increased revenue and prosperity among the poor. In Zanzibar, fish is one of the support pillars of the local economy. The fishermen now take their mobile phones with them to sea, and can obtain information on the prices of fish in different markets. Similarly, farmers can check the prices of corn, coffee and other goods in order to achieve the best possible price.

Mobile phones also have an important function in reducing costs and travelling time. This is of great value in countries where the transport system is particularly bad. Mobile phones can help to improve the service sector in poor countries. In the health services, diagnostics and follow-up of patients from remote areas are partly done over the phone. Developing banking services via the mobile network is far cheaper than building a physical infrastructure with branches and terminals, which makes the services more affordable.

Sources: World Bank (2008): Global Economic Prospects 2008: Technology Diffusion in the Developing World http://siteresources.worldbank.org/INTGEP2008/Resources/complete-report.pdf
BBC World Service Trust (2006): African Media Development Initiative, http://www.bbc.co.uk/worldservice/trust/researchlearning/story/2007/02/070214_amdi_summary.shtml
DFID (2006): Mobile Banking. Knowledge Map and Possible Donor Support Strategies, Report commissioned by DFID and Infordev by Bankable Frontier Associates (http://www.dfid.gov.uk/pubs/files/mbanking-knowledge-map.pdf)

medicine and agriculture that could improve their living conditions. The poorest developing countries are also trailing behind when it comes to opportunities for developing new knowledge. The Least Developed Countries have an average of 4.5 researchers per 1 million inhabitants, while developed countries have 3,300 per million. Only 0.1 per cent of the world's total research investments are made in the poorest countries. Another marginalising factor is that the increased use of patents, licences and other types of protection of intellectual property rights also hinders the poor's access to essential knowledge, technology and medicines. It is a major and growing problem for developing countries that Western countries register patents on knowledge and biological material that stem from developing countries lacking the capacity to use the resources commercially.

Developing countries that want to be involved in the international knowledge economy must carry out research, define research areas, educate highly qualified personnel and absorb new technology. UNCTAD claims that poor countries need to build a sufficient knowledge base, if they are to reduce their vulnerability to a liberalised global economy[4]. The understanding of this has led to increased focus on knowledge policy in developing countries. One of the main topics of the African Union in 2006 was science and technology.

Figure 8.2 illustrates different countries and regions' significance in global knowledge production. Developing countries such as China, India, South Africa and Brazil have gained a solid foothold as major research nations, while large parts of the Middle East and Africa are often lagging behind the rest of the world. The LDCs, with 11 per cent of the world's population, account for 0.1 per cent of the world's research efforts.[5] The weak knowledge base in these countries is also impaired by budget cuts and brain drain. In recent decades, the capacity in public research institutions in Africa fell by two thirds.

Developing a better knowledge basis for an effective aid policy is an important area in the intersectional field between aid and knowledge policy. Donors cannot have an informed dialogue with the developing countries on effective support for their poverty reduction policies unless they themselves have knowledge of what policies can best contribute to reducing poverty in different countries and contexts. There are major statistical and knowledge gaps within the development policy, not least with regard to the main topic in the mandate of the Policy Coherence Commission – how Norway's and other rich countries' policies affect poor countries.

This need, which is accentuated by the need for measuring the progress of the efforts to achieve the Millennium Development Goals, is being followed up by the UN with better information in its sector organisations. Many developing countries, particularly in Africa, have however still limited access to official statistics and information as a basis for evidence based policy making. Such information and analysis is important for an enlightened public debate, not least in nation-building processes where knowledge of a country's history etc. can be an important contribution to developing national pride. Since World War II, Norway has been a leader in the global development of statistics and economic analysis tools and has also contributed with the development of such capacity in developing countries.[6]

Considerations of the Commission

Knowledge must be regarded as a global public good. Knowledge is normally created in rich countries, mainly for reasons related to finances and capacity. Statistics show that Norway to a large extent is a free rider in the knowledge area, since the contribution to global knowledge is not in proportion to the country's value creation.

It is the Commission's view that a knowledge policy that is coherent with the goal of reducing poverty is primarily characterised by its contribution to the production and sharing of knowledge and new technology that can improve the living conditions of the poor in developing countries. A coherent knowledge policy should also support the development of the knowledge base in developing countries and contribute with relevant knowledge on developing countries.

4. UNCTAD (2007): The Least Developed Countries Report 2007 - Knowledge, technological learning and innovation for development. United Nations Conference on Trade and Development http://www.unctad.org/en/docs/ldc2007_en.pdf
5. UNESCO Science Report 2005. UNESCO Institute for Statistics
6. www.ssb.no/en/int

8.2 Policy for knowledge and technology development

8.2.1 Research aimed at the needs of the poor

New knowledge arises when existing knowledge from throughout the world is accumulated. All countries have a responsibility to help increase global knowledge. As a small country, Norway is a net importer of knowledge, but also contributes *relatively* less to the global knowledge base than most countries we draw comparisons with. Figure 8.2 illustrates how the share of GDP that Norway invests in research and development is low. The share has also fallen in recent years because the increase in the efforts has not kept pace with the GDP growth. This makes Norway a considerable free rider in the knowledge area.

The market will procure knowledge and technology when it is commercially profitable. This can also benefit the poor (see box 8.1 on mobile telephony). However, very little new knowledge is developed in areas where there is no market, or where the authorities or large private donors are not involved. There are few large private donors in Norway and although the developing countries to an increasing extent are attractive markets for Norwegian knowledge-based industry, this only applies to the poor part of the population to a very limited extent. Developing knowledge and technology in Norway with special relevance for the poor in developing countries is therefore dependent on public financing.

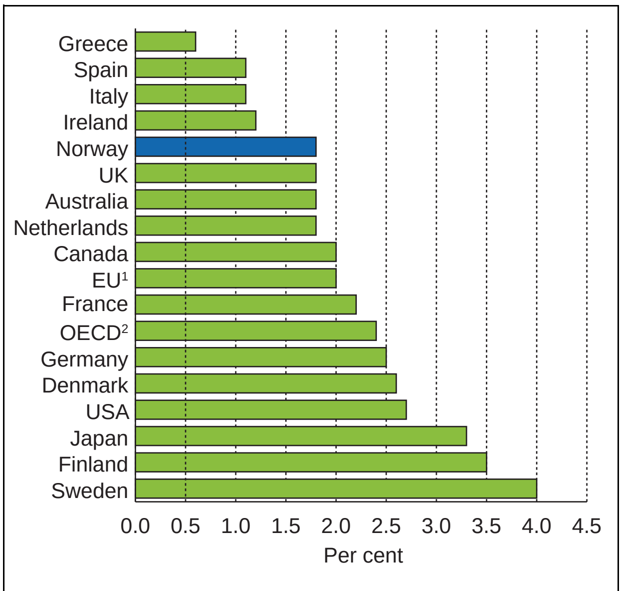


Figure 8.3 Investments in R&D as a percentage of the GDP. 2003

1 EU excluding Greece from the group of reporting

2 OECD excluding Greece, Australia and Austria from the group of reporting countries

Source: OECD og NifuStep

The white paper «Commitment to Research» highlighted the fact that as a rich country Norway has a responsibility to contribute to the global knowledge development. However, there is no systematic overview of status for poverty-relevant research in Norway. A survey conducted in 2007 showed that only 7.5 per cent of the health research in Norway was aimed at the major diseases in developing countries, which account for 90 per cent of the global sickness burden. The share had thus increased from 5 per cent in 2001 after global health was prioritised by the Office of the Prime Minister, the Ministry of Foreign Affairs and the Ministry of Health and Care Services. However, this is an extremely modest share considering that internationally the global share of poverty-related health research, which is 10 per cent on average, is regarded as problematically low.

The sector responsibility for research for developing countries in practice lies with the Ministry of Foreign Affairs. Additionally, each ministry has responsibility for financing research in its sector. There is no verification that research is carried out in sector areas which benefits poor developing countries and there are no strong incentives to do so. The reorganisation in 2004 where the management of the general bilateral aid was moved from NORAD to the embassies has led to increased fragmentation between the players and a reduced overview of the total schemes. The embassies also give very little support to initiatives within higher education and research. The reason is the lack of administrative capacity and insufficient allocations. The development-related research financed by the Ministry of Foreign Affairs accounts for around 2 per cent of the research financing in the national budget, or 1 per cent of Norway's total research effort.

The EU's framework programme for research is the world's largest research fund and the EU's third largest expense item. Norway takes part in the financing of the 7th framework programme, to the tune of approximately NOK 1.3 billion per annum. The framework programme places more emphasis on contributing to knowledge-building for developing countries than is the case for Norwegian research programmes, and has focus aimed at developing countries' special needs within health, farming, fisheries and environmental protection. Norwegian researchers collaborate with researchers from developing countries in these programmes.

A range of international initiatives have been launched in areas such as health and agriculture, and Norway takes part in the financing of these. In 2001, the Commission for macroeconomics and health, which was appointed by the World Health Organisation under Gro Harlem Brundtland and headed by Jeffrey Sachs, proposed establishing a global health research fund with allocations of USD 1.5 billion per annum. This has not been realised. There are currently a number of small, uncoordinated international initiatives within health research that are not sufficient to ensure the necessary research effort (see box 8.2 on Tuberculosis). The lack of an evaluation means that there is little knowledge on the effect of the global initiatives within health research. The experiences from the international effort in agricultural research are extremely positive with regard to the effect on poverty reduction (see box 8.3). An important question is how these experiences can be developed in other relevant areas. A third area with relevance for poverty reduction is research in the intersectional field between the climate and energy. There is very little focus in this area in Norway (see details in chapter 7 on the climate and energy policy).

8.2.2 Contributions to building research and education environments in developing countries[7]

A well-functioning system for basic education and vocational training is a prerequisite for a good recruitment basis for higher education and good-quality research. However, the focus here is on Norway's collaboration with developing countries within higher education and research because the sector policy in this field is most relevant in a

7. Norwegian policy effects of the brain drain from developing countries are covered in the chapter on migration and labour market policy.

Box 8.2 Who will finance research into new medicines for Tuberculosis?

Two million people die from tuberculosis (TB) every year. A total of 8–9 million people are infected every year, of which 2 million are in Africa south of the Sahara. TB is caused by poverty and creates poverty. Ninety-five per cent of TB sufferers live in poor countries. When a breadwinner contracts TB it often leads to poverty for the entire family. The illness spreads quickly in poor countries with poor health systems. Poorly administered programmes have led to the development and rapid spread of treatment-resistant TB.

Despite the increasing spread and poor treatment options, there has been no progress in the treatment of TB since the 1960s. There is a need for new medicines with shorter treatment times and better diagnostics in order to be able to fight the TB epidemic. This requires research. TB research in general, and the development of new medicines in particular, is chronically underfinanced. The task to a large extent is left to the pharmaceutical industry, which is dependent on covering costs linked with research and development through the sale of products and services. The authorities' instrument is to grant patents so that the industry can increase its earnings through high prices. TB constitutes an enormous market in terms of patient numbers, but the market size is, however, small since the number of patients that are able to pay for the treatment is small. With regard to illnesses that mainly affect the poor, patents do not entail any incentive for research and development.

In order to stimulate research into TB and other neglected illnesses, alternative incentives need to be developed that award effects on the population's state of health.

Casenghi et al (2007) proposes developing open units for developing new medicines in collaborations between academia and the pharmaceutical industry, financed on a contract basis by the public authorities and other users. The contracts must ensure that intellectual property rights for new products that are developed do not prevent patients requiring help from gaining access to the treatment.

Sources: Casenghi M, Cole ST, Nathan CF (2007): New Approaches to Filling the Gap in Tuberculosis Drug Discovery. PLoS Med 4(11): e293 http://medicine.plosjournals.org/perlserv/?request=get-document&doi=10.1371/journal.pmed.0040293
http://www.leger-uten-grenser.no/msfinternational/invoke.cfm?objectid=C4B5011D-5056-AA77-6C1AF917FFD6D314&component=toolkit.article&method=full_html

Box 8.3 Agricultural research reduces poverty

The Consultative Group on International Agricultural Research (CGIAR) was founded in 1971. CGIAR is a strategic alliance consisting of a number of countries, international and regional organisations and private research funds. It is coordinated by the World Bank, FAO (Food and Agricultural Association) and UNDP (United Nations' Development Program).

The purpose is to support 15 research institutions with a total of 8,500 employees in more than 100 countries. CGIAR has built up agricultural-related research expertise in developing countries, and among other things has developed new plant varieties that have contributed to the green revolution in Asia. Norway is one of CGIAR's largest donors.

The CGIAR support is an extremely cost-effective use of public duties. It is estimated that each kroner invested in research through CGIAR has resulted in increased food production corresponding to NOK 9, and that this research has reduced the number of malnourished children by between 13 and 15 million.

The authorities in the middle-income countries in Asia and Latin America have increased their own efforts in this field, and CGIAR currently accounts for around 5 per cent of the publicly-financed agriculture research aimed at developing countries. Very little of the agricultural research is aimed at the African agriculture, where the problems are the greatest. The farming production in Africa has fallen by more than 10 per cent since 1980, whilst increasing by 80 per cent in Asia.

Source: International Task Force on Global Public Goods (2006): Meeting Global Challenges: International Cooperation in the National Interest. Final Report. Stockholm, Sweden. http://www.gpgtaskforce.org/bazment.aspx

coherency perspective. The fact that the millennium development goals have led to increased international focus on aid for basic schooling is gratifying, but this effort needs to be viewed more in context with the need for a focus on higher education and research. The number of women that can read and write and go to school has been increasing for many years. New figures from the NGO network Social Watch show, however, that the positive trend has now turned. There are now more than twice as many countries in which the gender differences in access to education and literacy skills are increasing than there are in countries where they are falling[8].

Developing professionally-strong research environments and dissemination of research results are important elements of facilitating long-term economic growth, democratic development and fighting poverty. In addition to the knowledge base in the country contributing to increased international competitive power, local research, academic publishing and communication of results that is carried out by researchers with local knowledge and approaches to the problems the country faces will lead to the development of research topics that are considered to be important in these countries. Locally founded research can have greater effect in political circles and help to challenge the general understanding of the problems faced by the poor in developing countries. Researchers that also communicate results in local languages reach a wider area locally than international researchers that primarily publish in English.

«Commitment to Research» emphasised that Norway has obligations to involve poor countries in the international general knowledge through increased collaboration. Building education and research environments in developing countries requires a long-term focus of a completely different magnitude to that Norway alone can contribute with, but this does not mean that Norwegian policy in this area is insignificant. As shown in the «world map» in figure 8.2, Norwegian research focus constitutes double the total effort in the countries in Africa excluding North Africa and South Africa.

Compared with countries with a corresponding development policy, Norway appears to prioritise research and knowledge-based aid to a lesser extent. Sweden, for instance, spends about 6 per cent of its bilateral aid on research. Their experience is that focus on local institutional capacity development has given good results. This also

8. http://www.socialwatch.org/en/avancesyRetrocesos/IEG_2008/tablas/Brechaeneducacion.htm

applies to basic allocation and network support in preference to earmarked funds for research and personnel stationed in the embassies and in fields with special responsibility for research.

Commissioning parties in Norway – not least within the aid, but also other sectors – can contribute to the development of research environments in developing countries by including them in tender processes and announcements of research funds. Research environments in developing countries generally have little opportunity to take part in the competition for research funds in Norway and internationally, and the environments in the poorest countries are often of too poor quality to be able to compete. Consultants and researchers from developing countries take part in Norwegian aid evaluations primarily through hiring in Norwegian or European consultancy firms or research institutions to carry out evaluations. Norad's evaluation department has initiated a trial in Uganda with direct recruitment by local firms.

Norwegian education and research environments can help to strengthen the knowledge base through opening up more to students from poor countries, by supporting research environments in poor countries, through research partnerships and through disseminating research results to and from developing countries. Norwegian research environments have a primary mission and a self-interest in collaborating with good research environments internationally, also in developing countries. Self-initiated collaborations between researchers in Norway and countries such as China are also on the increase.

Collaborations with research environments in developing countries that are not international leaders are not encouraged by the financing system for universities, university colleges and the institute sector, and have no research prestige attached to them. Such collaborations must therefore be financed separately. This is currently done through the research programme NUFU, which is financed through MFA/Norad with approximately equal financing from each of the Norwegian institutions that take part (which in turn are financed by the Ministry of Education and Research), and Norad's Programme for Master Studies (NOMA). At the University of Oslo for instance, more than 100 scientific staff have project collaborations with colleagues in African countries, partly NUFU-financed, but also with funds from other sources. NUFU, which in 2003 was given a very good specialist evaluation, is however a source of moderate scope that is rather unpredictable with regard to long-term financing and involvement. A work group appointed by the Ministry of Foreign Affairs in 2007 found that four per cent of the aid goes to higher education and research. This also includes support to development research, which to a large extent consists of funds that are channelled back to Norway[9]. The working group also claims that Norwegian aid only uses support for higher education and research as an active instrument to a limited degree for underpinning the activity in various sectors and focuses.

Apart from the direct allocations to universities and university colleges, programmes administered by the Research Council are the most important public financing channel in Norway. Only Norwegian research institutions can apply for financing from these programmes. In principle, research environments from developing countries can get access to such financing through collaborations with Norwegian environments. In practice, this type of participation is limited by scarce resources and political priorities of specific Norwegian problems that the appropriating ministry wants to shed light on.

One option for building research and education environments in developing countries lies in financing special collaborations with selected countries. Norway has bilateral research agreements with developing countries that are well advanced within certain research areas (South Africa, India and China). The South Africa programme is a research programme that is supported by both Norwegian and South African authorities. The Norwegian part has so far been financed from the aid budget, but will eventually be included in the ordinary research allocations. This illustrates how collaborations that have traditionally been regarded as aid are to a growing extent being regarded as equal collaborations that serve Norwegian interests. With regard to the research agreements with India and China, these are not followed up on the financing side to any great extent, despite it being in Norway's own interest to expand the collaborations with these countries.

Multilateral financing can be more attractive for developing countries than bilateral collabora-

9. Norad (2007): Mot en mer kunnskapsfokusert utviklingspolitikk: plattform for bilateral bistand til høyere utdanning og forskning i utviklingslandene (Towards a more knowledge-focussed development policy: a platform for bilateral aid for higher education and research in the developing countries). By the working group from the Ministry of Education and Research, the Research Council, the Norwegian Centre for International Cooperation in Higher Education, the Norwegian Association of Higher Education Institutions, the Ministry of Foreign Affairs and Norad. http://www.norad.no/default.asp?V_ITEM_ID=8454

tions, since the multilateral collaborations have access to more potential collaboration institutions of outstanding quality. Collaborations financed through Norwegian aid will often be tied to collaborations with Norwegian institutions that do not necessarily lead the way on the international research front in the relevant area. Both NUFU and NOMA are open for multilateral partnerships.

The majority of activities in the thematic programmes in the EU's framework programme are open for participation from developing countries. The framework programme has developed its own instruments that are adapted to the developing countries' capacity and Norway contributes to this through its financing of the framework programme. According to the EU, the most important limitation of the collaboration with environments in developing countries, is the poor capacity of these countries. According to the EU, more breakthroughs for developing countries in the international competition arenas for research financing require more effort from the aid side in order to develop the environments.

The research initiatives Norway supports within health and education through the UN and other multilateral organisations have little association to higher education and research institutions in developing countries. Additionally, they often have no local skills-building and institution-building as a central part of their activity and therefore contribute very little to strengthening research environments in low-income countries, which similar initiatives within agriculture do.

Norway has taken initiatives in international organisations in order to safeguard education and research environments in developing countries. In 2003, UNESCO's general conference approved a Norwegian resolution proposal on quality in higher education. As a follow-up, the OECD and UNESCO have drawn up guidelines for quality assuring transnational higher education across country borders in order to protect students from scams and education of poor quality that has come with the increasing trade of education services.

In 2005, Norway undertook an initiative to open up the European Bologna process, whose aim is to establish a European area for higher education by 2010, to the rest of the world. Norway led the working group that devised a strategy for this. The strategy was approved at the ministerial meeting in London in 2007. Its aims include increasing the collaboration with universities in developing countries and approval of qualifications from developing countries. This initiative can probably contribute to far more focus on quality in higher education and research in developing countries than traditional aid.

8.2.3 Knowledge for a better development policy

The Ministry of Foreign Affairs is the main source of financing for policy-related development research. An evaluation in 2007 of the social studies part of development-related research shows that it has a large scope in Norway and that the quality is generally good. The evaluation was critical to the close connection between researchers and commissioning parties, and indicates that the aid authorities can have too much influence on which problems are researched. It was particularly noted that too little research is carried out on the effect of the aid. Another problem emphasised by a working group in the Ministry of Foreign Affairs is balancing Norwegian priorities between «national ownership» and «Norwegian comparative advantages», and the importance of the use of Norwegian expertise not hindering the building of local long-term capacity and expertise.

According to the Global Forum for Health Research,[10] there is a large need for more research into implementing initiatives. This applies to many areas. Many initiatives in poor countries have often not experienced the expected effect, but due to limited research-based evaluations, we still do not know enough about why well-intended initiatives have not given better results. The focus that is now in place for achieving the millennium goals is not followed up to any great extent with the necessary research. There is also a very limited degree of coordination between the various donors, national authorities and international organisations with regard to implementation research, despite this being able to provide major efficiency gains.

Considerations of the Commission

Knowledge and technology can help to reduce poverty, but the poor do not constitute an attractive market and poor countries have no resources to prioritise higher education and research. In this perspective, the Commission regards it to be unfortunate that Norway does not focus very much on knowledge development in general, and that poverty-relevant research does not appear to be prioritised. The level of research effort is not heading in the right direction, and a steadily smaller share of the total value creation in Norway

10. Information at the website www.globalforumhealth.org

is being earmarked for developing new knowledge and technology. A slight increase in the prioritising of poverty-related health research in recent years can indicate that the prioritising has become more in line with global needs, but it is still reasonable to conclude that Norwegian research does not give much priority to the education and research needs of the poor in developing countries.

The Commission also notes that focus on developing higher education and research institutions in developing countries is modest. The Norwegian initiatives in the Bologna process and UNESCO give voice to the national educational authorities in Norway and internationally to an increasing extent taking their share of the responsibility in order to achieve the development policy goals. These are positive indications, but it remains to be seen what actually transpires from these initiatives. For the time being, it is reasonable to conclude that the intentions of the «Commitment to Research» with Norway as a global partner in the knowledge area is only followed up with definitive focus to a very limited extent.

The Commission acknowledges that there is, to a certain extent, an inherent clash between the development policy goal for research collaborations (to facilitate research capacity in developing countries) and the political goal for research collaborations (to facilitate quality and capacity in the research in Norway). However, growing numbers of middle-income countries are developing good research environments, and some also good higher education and research sectors. This helps reduce the clash between these two goals. Research collaborations can therefore be developed that help to develop the middle-income countries' sector for higher education and research and that are beneficial to the quality and capacity in Norwegian research. This particularly applies to the collaboration with China and India, where Norway is in danger of being left behind by other more ambitious countries.

The Commission believes that research programmes and incentives in the university, university college and institute sector do not sufficiently reward research aimed at developing countries' needs and research collaborations with developing countries with a low knowledge base. Research dissemination beyond international periodicals and in local languages that is necessary for local knowledge-building and discussion is not rewarded in the Norwegian system. In order to rectify this, the Commission believes that new stimulation schemes are needed so that the Ministry of Education and Research together with Norwegian universities, university colleges and research institutions choose to credit, prioritise and allocate more resources for research and education aimed at these needs and more global needs. It is positive that through the public university and university college institutions the Ministry of Education and Research is taking a binding participation in the financing of the NUFU programme and thereby helping to achieve the development policy goals. However, it must be emphasised that the efforts by the Ministry of Foreign Affairs, Ministry of Research and Education and Norad are small.

The Commission believes that it will also be in Norway's interest to establish a more global perspective on financing and prioritising. One example is health research. Infectious diseases cross country borders easier nowadays. Global warming leads to an increase in the spread of tropical diseases. In a globalised world it is therefore in Norway's own interest to help stop the global diseases such as HIV/Aids, malaria and multiresistent tuberculosis. There is a need for a greater degree of coordination of the international effort in health research, and to involve university environments in developing countries.

The Commission believes that there is not enough research on the effect of aid. University and institute environments in developing countries are not used much in such research, which means that the synergy effects between aid and knowledge-building are not utilised.

The Commission believes that it is positive that all ministries have responsibility for research in their sectors. However, it is negative that the sector responsibility with regard to the knowledge needs outside Norway's borders is unclear. The sector ministries are currently judged primarily on what they do «for Norway». Although the Ministry of Foreign Affairs is responsible for the development sector, it is unrealistic to expect it to bear the whole of Norway's responsibility to contribute to knowledge-building that is relevant to the poor in developing countries. In this case, the Ministry of Foreign Affairs has a far greater research budget than 1 per cent of Norway's total research effort. A stronger Norwegian focus on knowledge and technology development for the poor will require other sector ministries to a greater extent prioritise global problems with regard to research financing. The Commission believes that all ministries should have responsibility for the global challenges within their sector and that the sector responsibility for research must be a part of this. This particularly applies to the authorities with responsibility for education and research, health, the environment, agriculture and energy and will require a long-term development with involvement and clear apportionment of responsibilities founded at a political level.

8.3 Knowledge sharing

8.3.1 Policy for copyright and knowledge-sharing

In economic terms, knowledge is a collective good or public good, characterised by being non-excluding, which means that in an unregulated market it is impossible to prevent anyone from using knowledge that is generated, and that it is non-competing in consumption, which means that someone using the knowledge does not prevent others from using it: knowledge does not get «used up» as opposed to most other goods.

This means it is profitable in economic terms for as many parties as possible to use new knowledge. There is a major benefit to society that developing countries gain access to new knowledge and technology that is mainly produced in rich countries. The fact that knowledge is non-excluding means that the financing of knowledge development is more demanding than financing most other goods. Research can either be financed from public budgets (R&D support, tax deductions etc.) or donations, or the authorities can leave it to the developer to pay. The latter will not be the case if the developer does not have any prospect of recovering his costs.

Copyright legislation aims to help those developing knowledge and technology etc. to cover their costs. The legislation gives the developer of immaterial (non-material) property exclusive, temporary right of use through patents, copyrights etc. The owner of the knowledge/technology can let others use it, normally for a charge (licence/royalty). The purpose of the legislation is to create incentives to help increase society's access to knowledge. At the same time, the right of ownership to knowledge must not be so stringent that the positive incentive effects lead to a monopoly of knowledge. This is a key reason for patents having a fixed duration. Progress within the research requires new ideas to build on the existing knowledge. Increasing the protection of the legislation can prevent such knowledge-building and has also been shown to drain funds from research to the fight for rights in the courtroom. Monopolies also lead to artificially high prices and lower rates of innovation due to a lack of competition. The World Bank has calculated that the TRIPS agreement – the agreement on 'Trade-Related Intellectual Property Rights', which entails developing countries that take part in the international trade agreements having to introduce copyright legislation systems on a par with those in rich countries – will quadruple the developing countries' licence payments to rich countries, and thereby offset all development aid.

There is no research basis for claiming that more stringent copyright legislation would contribute to technological development in poor countries. On the contrary, legislation can help to prevent technological development in the least developed countries. In a survey conducted in 2007,[11] UNCTAD refers to experiences from a number of Asian countries that caught up with western countries with regard to technology development. At the technological level that many of the developing countries among these find themselves, they can copy technology from technologically advanced countries. They thus have no benefit from the technology being protected. Only at a high technological level will a country have defensive interests in protecting self-developed technology. The World Bank[12] finds evidence that copyright protection can facilitate technology transfers through direct foreign investments and establishments of subsidiaries in middle-income countries, but not in poor countries.

There is extensive agreement in the socio-economic debate that the copyright legislation in recent years has developed to favour developed countries where the rights holders are from, as opposed to the developing countries[13]. In the USA and Europe, national legislation was passed that increases the monopoly power within the knowledge and technology area. Taking out a patent and patent-like protection on items that were not previously permitted to be protected in this manner has been legalised. Patents are getting increasingly longer periods of validity, and industry's strategy is

11. UNCTAD (2007): The Least Developed Countries Report 2007 - Knowledge, technological learning and innovation for development. United Nations Conference on Trade and Development http://www.unctad.org/en/docs/ldc2007_en.pdf
12. World Bank (2008): Global Economic Prospects 2008: Technology Diffusion in the Developing World http://siteresources.worldbank.org/INTGEP2008/Resources/complete-report.pdf
13. Wolf, Martin (2005): Why Globalization Works. Yale Nota Bene. Stiglitz, Joseph E. (2006): A New Agenda for Global Warming. Economists' Voice July 2006. http://www.bepress.com/cgi/viewcontent.cgi?article=1210&context=ev
Chang, Ha-Joon (2007): Bad Samaritans–Rich Nations, Poor Policies and the Threat to the Developing World. Random House Business Books - Arrow Books Ltd

to extend existing patents by means of small changes in the patenting (evergreening). Knowledge that to a large extent is developed through publicly-financed research is patented by the business sector. The use of patents has exploded within biotechnology/genetic research, particularly in the pharmaceutical industry and agriculture. Due to increasing concerns over expensive licences in practice excluding large groups from being diagnosed and treated, the OECD has devised guidelines for licensing such innovations.

Copyright legislation in different countries is harmonised through international cooperation. It is therefore becoming increasingly easier to apply for patents in more than one country simultaneously. This leads to savings both for industry and the patent authorities, and can shorten the increasingly long processing times in the national patent offices. Long processing times delay the publishing of the research, and harmonisation can in this way facilitate the flow of knowledge. On the other hand, increased harmonisation will lead to an increase in the number of countries that each patent is valid in, which leads to more monopolising of knowledge and to developing countries losing the possibility for access and copying.

The international Patent Cooperation Treaty (PCT) is administered by the UN's special organisation for World Intellectual Property Organization (WIPO). In the international negotiations, the USA, Japan and the EU (represented by the respective countries' patent offices) are the driving forces behind the introduction of a universal patent, i.e. that a patent granted in one member country is automatically valid in all other member countries. In the EU, work has been underway for some time to reach agreement on a decree for a joint patent that is granted with effect for the entire EU as a whole. The process for harmonising the patent right in WIPO broke down in 2006 due to disagreement between the industrialised countries and the developing countries. After this, the negotiations were carried out in informal fora with limited transparency, and without participation from the developing countries. According to Tvedt[14] (2007), it is likely that agreement will be reached in this informal negotiation and that the negotiation results will be brought back to the WIPO as a take it or leave it solution for all countries.

The WTO's decree through the TRIPS agreement that developing countries taking part in international trade agreements must introduce copyright legislation systems on a par with those in rich countries, will make it unlawful for developing countries to copy knowledge and technology that is patented or rights protected by foreign owners in their own country. According to the TRIPS agreement, patents should also be granted for innovations where genes and microorganisms as well as microbiological procedures are carried out. This is where the TRIPS agreement conflicts with the UN convention on biodiversity (CBD) since the granting of patents does not take consideration of the convention's provisions that access to genetic material requires prior consent from the country from which the material emanates. According to the convention, the mutually agreed terms should also determine any distribution of the earnings from use of the genetic diversity. Under the TRIPS council, Norway has organised a new, obligatory provision whereby the origin of genetic resources shall be specified in patent protection applications. This will make it easier to ensure that CBD's provisions are followed by those using genetic resources in developing new products.

As a result of the TRIPS agreement, all WTO countries are obliged to introduce a patent on all types of innovations, but countries are permitted not to allow patents on plants and animals. On the other hand, they are obliged to introduce a so-called *sui generis* system for the protection of plant varieties (article 27.3b). No close definition has been given of what such a system should be other than it must be effective. Developing countries are now being pressurised to introduce plant variety protection that is in line with the International Union for the Protection of New Varieties of Plants (UPOV).

The UPOV evolved in Europe from the 1960s based on the desire to give certain exclusive rights to plant breeders and the fact that the patent system was found to be unsuitable for protecting plant varieties. The 65 current members of the UPOV are affiliated with either the 1978 or 1991 agreement. The difference between these two agreements is that the version from 1978 permits farmers to save seed grains from their own crop and use it freely. This is of great significance for farmers in developing countries. In the 1991 version, this right is restricted. Norway joined UPOV in 1993 because it was then clear that the opportunity to be affiliated with UPOV 1978 was drawing to an end. Norway is still only affiliated to the 1978 version of the agreement.

The majority of the member countries in UPOV are industrialised countries. The pressure on

14. Tvedt, Morten Walløe: The Path to One Universal Patent. Environmental Policy and Law, Vol 37, No 4, 2007. http://www.fni.no/doc&pdf/MWT-EPL-2007.PDF

developing countries to join the UPOV is happening under pressure from the UPOV secretariat and from industrialised countries through bilateral trade agreements. If developing countries are to affiliate themselves with the UPOV, they must introduce national rules for plant variety protection in line with UPOV 1991, even although UPOV 1978 gives better protection for farmers' rights to sow seeds.[15]

The TRIPS agreement has a clause stating that the agreement shall be renegotiated. The developing countries have requested a speedy renegotiation, supported by Norway, among others. This has not materialised, but some changes in favour of developing countries have been introduced. Through a political declaration in 2001, the WTO agreed that the TRIPS agreement should not obstruct resolutions in the member countries to protect public health, and that all countries should have the right to issue compulsory licences in cases where public health is threatened[16]. The TRIPS agreement basically restricts the power to export compulsory-licensed products, whereby developing countries without the technical or economic prerequisites to actually be able to produce duplicate medicines have in principle been referred to expensive original goods. In 2003, however, the WTO passed a supplement to the TRIPS agreement whereby medicines made under a compulsory licence can now be exported to poor countries without sufficient production capacity.

In 2005, the WTO recognised that protection of intellectual property rights can have costs that are greater than the benefits for the poorest countries. That same year, therefore, the least developed countries' deadline to implement the TRIPS agreement was extended to July 2013. With regard to the patent of medicines, a deferment has been granted until 2016.

Due to the hiatus in the WTO negotiations, a number of bilateral and regional trade agreements are being entered into. These generally contain corresponding or more stringent (TRIPS+) requirements than the TRIPS agreement demands.

The policy in the most knowledge-intensive countries in recent years has placed more emphasis on commercialising research results. This also applies to access to international databases that are more and more closed and only made available against substantial economic contributions. Databases within health and the climate collected using financing from joint funds are to an increasing extent closed and commercialised.

This development can constitute a threat to open access to new knowledge and technology. Based on research's vital role in solving global challenges within health, the climate, energy and natural resources, the OECD is working to ensure open access to publicly-financed research data (collected base data) and points out that the progress within such research is dependent on the broadest possible exchange and dissemination of knowledge. The European parliament has also passed resolutions to ensure that copyright legislation does not hinder the transfer of climate technology to developing countries.

Internationally, there is a growing tendency for the authorities to encourage or set requirements for publicly-financed research to be published and made freely available through archives at public institutions. This is due to steadily growing prices of scientific periodicals creating a barrier to the dissemination of knowledge. The European Research Council (ERC) decided in 2007 to require all ERC-financed research published in periodicals and requiring peer reviews (colleague assessments) to be made freely available within 6 months of publishing. The European organisation of universities (EUA) decided in 2008 to work for similar transparency for the results of research at the universities. The USA congress decided in 2008 that all research financed by the USA's research council for health research (National Institutes of Health) shall be published on the freely available website PubMed. In 2008, Harvard University was the first university in the USA to adopt similar guidelines. A number of universities and research councils in Canada, England and China, among other places, are introducing or have introduced similar requirements[17].

Within IT there is also a relatively strong movement towards open source and free software as a reaction to trends for monopolies, patents and expensive licences in the software industry. Software that is licensed out cheaply or without charge permits the user to build further on the technology. For developing countries this can mean major savings and greater technology transfers.

15. Farmers' rights are acknowledged in Article 9 of the International Treaty on Genetic Resources for Food and Agriculture (ITPGRFA). Realisation of these rights is vital to ensuring sustainable use of the biodiversity in farming.
16. A compulsory licence gives the right to utilise (i.e. produce or import) the patented product, without the patentee's consent, but against «suitable remuneration». An important prerequisite for a compulsory licence is that the patentee is not willing to sell or enter into voluntary production licence agreements on reasonable terms.
17. http://www.arl.org/sparc

Box 8.4 Possible negative consequences for developing countries of increased copyright protection

Empirical knowledge on copyright's role in facilitating innovation and economic growth is limited and the conclusions are many. There are also differing opinions on the effect of copyright legislation on the developing countries' possibilities for growth and social development. The following is a review of the negative effects for developing countries (based on UNCTAD/ ICTSD 2003[1], UK Commission 2002[2]).

Economic costs: New knowledge and technology builds on existing knowledge and technology. The more available the knowledge is, the easier it is to build on it. Patents make it illegal to build on the patent knowledge as long as the patent is valid (normally 20 years), in the countries it is valid (the countries in which the patent owner has registered a patent). This can lead to the same knowledge being «invented» several times, which is a waste of resources in economic terms. Alternatively, a licence must be paid to use the patented knowledge. This increases the costs of research and innovation.

Barriers to knowledge development: Patents can be an incentive for carrying out knowledge development, but can also act as a barrier. In many industries, the technology development happens in many, small steps. This applies, for instance, within the development of software and biotechnology. When every little step is patented, maintaining an overview of applicable patents becomes resource-intensive. Companies and research environments that cannot use a great deal of resources on legal aid to maintain an overview of patents in their area risk violating patents without knowing it. There are a number of examples of companies that have fallen flat after major compensation claims for patent violations.

This affects developing countries in two ways: Industry in developing countries is more vulnerable due to poor access and resources to legal expertise. This makes the disincentives greater in developing countries where a copyright legislation system like the TRIPS agreement requires has been introduced. The production of new knowledge and technology that is especially relevant to the poor in developing countries is also affected. For example, a mass of patents on genes will make it even less attractive (more expensive) to develop medicines or seed varieties for a market with a limited ability to pay (see the UK Commission pages 127 and 129 for examples of researchers that support 39 patents in research into malaria vaccines and 70 patents in A-vitamin-enriched rice).

Pulling up the ladder: It can also be argued that developing countries should have the opportunity to copy technology in order to create economic and social development, such as Japan and South Korea have done. Both Japan and the world's consumers are served by Toyota seeing the light of day, at the expense of American and European car manufacturers' market power (see Dutfield 2006[3] for more examples, including the Swedish company Ericsson).

Prevents the poor's access to medicine: The argument for copying technology applies generally, but the social argument is stronger within medical technology than in other industry. Generic drugs normally cost a percentage of the original. Cheap generic drugs can mean the difference between life and death for poor people. The pharmaceutical industry is working to prevent the production and export of generic drugs to poor countries (see the box on the court cases between Novartis and India).

Can threaten biodiversity and the poor's food security: This can take place in three ways: 1) Copyright protection of plant varieties introducing economic incentives in the farming sector that will turn the production towards fewer plant varieties. The production will thereby be more vulnerable to illness. The diet of the farmers can

1 UNCTAD/ICTSD (2003): Intellectual Property Rights: Implications for Development. Policy Discussion Paper http://www.iprsonline.org/unctadictsd/policyDpaper.htm
2 UK Commission: Integrating Intellectual Property Rights and Development Policy. Report of the Commission on Intellectual Property Rights. London September 2002. http://www.iprcommission.org/graphic/documents/final_report.htm
3 Dutfield, Graham: «To copy is to steal»: TRIPS, (un)free trade agreements and the new intellectual property fundamentalism. Journal of Information, Law & Technology No. 1 2006. http://www2.warwick.ac.uk/fac/soc/law/elj/jilt/2006_1/dutfield/

Box 8.4 continue

also become more one-tracked. 2) The farmers' options to freely exchange seeds are reduced, and they will to an increasing extent have to pay for seed corn. 3) Free exchange of plant varieties for development of new and better varieties is reduced.

Enables theft of the developing countries' knowledge (gene robbery etc.): Extension of what can be patented for plants and other natural common biological material – with the developing countries' having the capacity to make use of the opportunity this gives for business development – means that technologically advanced countries make off with the profit.

For example, the pharmaceutical industry has taken a patent out on traditional knowledge on curative plants etc. taken from folk medicine in developing countries. In this way, the industry earns money on the knowledge developed in poor countries, simultaneous to poor countries not having the opportunity to use their own knowledge without having to pay for it.

Makes it difficult for universities in developing countries to keep up on the research front: The main channel for quality control and dissemination of research results is articles in periodicals that are reviewed by peers. Most reputable periodicals are owned by the major international publishing houses, which have the copyright on the articles. The price increase of scientific periodicals in the past 30 years has been 3–4 times higher than inflation. In order for a university to be able to keep up with research, access is needed to a large and rapidly increasing number of periodicals. For universities in poor countries, the subscription costs are insurmountable. For example, the University Library at the University of Oslo spent NOK 50 million on periodical subscriptions and other media purchases in 2005. This corresponds to a third of the entire budget for higher education in Kyrgyzstan, a poor country with about the same population as Norway. Research often requires specialist software, for instance, advance statistics programmes that need to be upgraded often. The cost of many such programmes is insurmountable for many developing countries, since the licence costs are adapted to rich countries' purchasing power. Before copyright was introduced in developing countries (often through the TRIPS agreement), software, articles and textbooks could be copied legally in these countries.

Copyright should be adapted to local conditions: Developing countries also have a need to protect knowledge and technology developed locally, and to attract foreign investors within the technology industries. Each country should find a system that corresponds to the needs of that country. However, this does not mean that it is in the developing countries' interests to make patents and copyrights from rich countries applicable in the developing countries, as TRIPS has resulted in.

8.3.2 Norwegian policy development within copyright legislation

As already mentioned, Norway spends relatively little funds on research and development. Norwegian industry also scores relatively low on international patent statistics. One reason for this is that Norway's industrial structure has few companies within patent-intensive industries such as pharmacy and biotechnology.

In a survey conducted in 2004 on behalf of the Norwegian Industrial Property Office, a total of 91 per cent of a sample of companies from Norwegian industry reported that increased competition makes it more important to protect industrial rights[18] (Norwegian Industrial Property Office 2004). However, only 38 per cent of the companies said they will protect their own intellectual property rights. This can indicate that Norwegian companies generally have little need to protect their industrial rights.

Norway's policy on intellectual property rights, however, has mainly followed the international trend. In 1998, Norway introduced the EU's database directive, which gives patent-like protection for collections of existing facts. This is controversial and not permitted in the USA, among other places. In 2003, Norway decided to introduce the

18. Norwegian Industrial Property Office: Industrielle rettigheter i Norge (Industrial rights in Norway). A survey of Norwegian industry, conducted by Perduco AS on behalf of the Norwegian Industrial Property Office, 6 December 2004 www.patentstyret.no/upload/Filarkiv/undersokelser/undersokelse_perduco_2004.pdf

EU's patent directive on the legal protection of biotechnology innovations. This further extended the definition of what can be patented in Norway. One of the arguments was that copyright protection in Europe is necessary in order to contain the low threshold that is practised in order to achieve copyright protection in the USA. Reference was also made to the fact that the business sector believed the adverse effects for Norwegian industry would be far-reaching if Norway refused to accept the directive. Major controversy surrounded the introduction of this directive. Nine out of 19 cabinet ministers, including the Prime Minister, dissented.

Some moderating measures were introduced in order to meet some of the objections to the patent directive. Among other things, the patent legislation was amended so that patent applicants had to provide details of which country the inventor received or obtained the material from. If the legislation in the supplier country requires consent to be granted for extracting biological material, the application should include details of whether such consent has been granted. However, this provision only applies to patent applications submitted directly to the Norwegian Industrial Property Office, while the majority of applications come via the PCT system. Furthermore, violating this obligation will not affect the decision on whether to grant the patent application.

In 2007, the Storting[19] endorsed affiliation to the European patent convention, which led to membership of the European Patent Office (EPO) from 2008. Through the EPO, a patentee can make the patent applicable in all countries that are members of the EPO without having to apply for a patent in each country. EPO membership invalidates some of the aversion measures mentioned above. Among other things, the duty to provide information will be easier to circumvent, so that Norwegian companies will also find it easier to sidestep their obligations in accordance with the UN convention on biodiversity and committing «gene robbery» in poor countries (see box 8.4). The civil society is concerned about the EPO's granting of patents for common plants and animals and in Norway 16 organisations have asked the Government to intervene in an ongoing complaint in the EPO to revoke a patent for common broccoli.

As in other western countries, the Norwegian authorities are placing ever more emphasis on commercialising the research results from public universities and university colleges. The argument is mainly that the knowledge that is developed in the university and university college sector shall be made available for and used by society, but providing the university and university college sector income is also a motive. Traditionally, the universities and university colleges have stood for transparency and knowledge sharing, including with developing countries. Commercialising research results can lead to conflicts of interest in connection with transparency and sharing, but it is too early to say what the consequences of the Norwegian policy will be.

Open publishing is a major benefit for researchers at underfinanced universities in developing countries. The international trend within open access discussed above has only been used to a very limited extent in Norway. The Report to the Storting entitled Commitment to Research puts the emphasis on open access to research in Norway and the Norwegian Association of Higher Education Institutions (UHR) has recommended that the institutions follow this up, without any broad, binding follow-up taking place. Proposals were recently developed on publishing, patenting and other copyright policies for the universities and the Research Council. The proposals are characterised by the desire to protect rights as opposed to ensuring access to knowledge for society. The proposals do not take explicit account of the developing countries' special needs for access to knowledge and technology. The Norwegian authorities are also unclear on the importance of base data as a public good, and do not make an active contribution to the developing countries gaining access to base data in key sectors. All universities in Norway have search services where knowledge is freely available. Research environments in Bergen provide research results for free use through Bergen Open Research Archive (BORA). The various search services are linked through the Norwegian Open Research Archives (NORA), which in turn is linked to international archives. However, researchers in Norway can choose whether they want to make publicly-financed research freely available. This is one key difference from the international initiatives that are presented above.

8.3.3 Norwegian policy in relation to international copyright regulations

Norway approved the TRIPS agreement in 1994. Norway has subsequently been a driving force for changing the agreement and is one of the very few industrialised countries that have tried to expedite the renegotiation of the agreement. Norway was also one of the driving forces behind the amend-

19. The Norwegian Parliament

ment to the TRIPS agreement in relation to public health in 2001 and 2003. Norway proposed a further amendment to the TRIPS agreement in 2006 which requires patent applicants to submit details of where any gene resources or traditional knowledge that the innovation is based on stems from before a patent application for this can be processed. It was also suggested in this connection that details should be given of whether the country of origin requires permission to be granted for access to the country's gene resources, and whether such permission has been granted. This proposal could reduce the conflict between the TRIPS agreement and the UN convention on biodiversity through facilitating a fairer distribution of the benefits of using gene resources (counteracting gene robbery). An amendment to the TRIPS agreement in this area has been a requirement from a number of developing countries. Norway is the first OECD country to facilitate amending the TRIPS agreement on this point.

Simultaneous to Norway's efforts to amend the TRIPS agreement, bilateral and regional trade agreements with developing countries are being entered into in EFTA, which impose upon them a duty to introduce copyright protection beyond the provisions of the TRIPS agreement. Official Norwegian policy is not to force more stringent controls on developing countries than provided for in the TRIPS agreement. A report commissioned by the Policy Coherence Commission, however, shows that this political goal has little practical value[20]. Only one out of six trade agreements that Norway has entered into with EFTA in the past five years escapes the characterisation TRIPS+ agreement. There has previously been little debate on this, and the Storting is not aware of what copyright agreements are covered by the free trade agreements since the agreements are submitted to the Storting for processing without appendices. There is an obvious conflict in this area within EFTA. Switzerland, which has strong interests within the pharmaceutical industry, has been an active driving force for extensive international copyright protection and wants more stringent patent protection in bilateral agreements as well. The Minister for Trade and Industry ensured the Storting (question time on 25 November 2007) that Norway has support for his points of view on TRIPS+ in EFTA, and that EFTA now only enters into TRIPS+ if the countries already have such agreements with other countries. Nevertheless, the survey by the Policy Coherence Commission shows that five out of six such agreements have TRIPS+ elements. There is therefore still uncertainty surrounding Norway's and EFTA's policies in this area. Questions should also be raised regarding the practice of entering into TRIPS+ with countries that already

Box 8.5 Novartis vs. India

Novartis sued the Indian authorities under India's new patent legislation from 2005, because the company wanted more stringent patent protection of its products. Novartis claimed that India's patent legislation was not in line with the rules that were determined by the World Trade Organisation and violated the Indian constitution.

India started granting patents for medicines in 2005 in order to adhere to the WTO's rules, but made the rules with an assurance that the patents can only be granted in cases of genuine innovations. This means that firms that apply for patents for something that has already been invented, in order to extend their monopoly on an existing pharmaceutical, will not succeed in doing so in India. It is this aspect of the law that Novartis tried to remove.

A ruling that had favoured the company would have led to a drastic reduction in the Indian production of reasonably-priced medicines that are crucial to the treatment of patients throughout poor countries. India is known as the pharmacy of the poor countries. The authorities in developing countries and international organisations are dependent on reasonably priced medicines from India. A total of 84 per cent of the Aids medicines that Doctors without Borders gives to its patients are from Indian companies.

Novartis lost the case. The court rejected all of Novartis' objections and confirmed that the consideration to public health, which is integrated in the Indian patent legislation, is legal.

Source: Doctors without Borders

20. Haugen, Hans Morten: Finnes TRIPS+ i frihandelsavtaler som Norge er part i? (Does TRIPS+ exist in free trade agreements that Norway is party to?) Report for the Policy Coherence Commission, February 2008. www.utviklingsutvalget.no

have such agreements regardless of the increasing pressure in developing countries for more stringent copyright protection due to the fear of trade sanctions.

The TRIPS agreement also entails an obligation for rich countries to implement national measures to transfer technology to developing countries. This provision has not worked as intended. There is disagreement on how technology transfers shall be defined. Norway reports Norad's instruments for industrial aid and investments via Norfund as measures to transfer technology.

In WIPO, Norway has supported the USA, Japan and the EU's wish to share the agenda in WIPO in order to progress in the process to harmonise international patent rights. A potential world patent will mean stronger ties for developing countries than the TRIPS agreement entails. The process in WIPO crosses the wishes of the developing countries. The Government has been met with criticism because the Norwegian bridge-building role between north and south is not as clear in WIPO as it has been in other fora[21] (Tvedt 2008). This can be due to Norway playing different roles in different WIPO fora. In the efforts aimed at the world patent, Norway has supported a parallel process through OECD in order to expedite the work. However, this is carried out behind closed doors and the developing countries are not included. In fora such as the WIPO working group for the protection of traditional knowledge and folklore, Norway has on the other hand had a good dialogue with the developing countries, partly to protect their interests.

After proposals from Argentina and Brazil supported by a number of other developing countries, the WIPO approved in September 2007 a «development agenda» in order to ensure a better balance between rights holders' interests and joint interests, thereby preventing the international copyright legislation system's credibility from being undermined. The developing countries have not succeeded in formulating a common standpoint to the development agenda. The USA, Switzerland and other rich countries have been strongly against parts of the development agenda and have claimed that if WIPO is not going to facilitate copyright legislation, the organisation no longer has a mission. There has been a great deal of antagonism between the OECD countries and a number of developing countries. Norway has not actively supported any of the parties but claims to be satisfied with the decision on the development agenda in 2007.

The World Health Organisation has appointed an «Intergovernmental Working Group on Public Health, Innovation and Intellectual Property» (IGWG), which will consider copyright legislation in relation to public health, in particular how to procure knowledge and medicines to combat overlooked illnesses, and give developing countries access to cheap medicines. Norway's position in the WHO has been that access to lifesaving medicines (including compulsory licences if necessary) must be regarded in a human rights perspective. Norway has supported proposals to create a global plan of action, including to increase the public financing of research on overlooked illnesses. Norway has also claimed that the international copyright legislation system does not safeguard the challenges faced by poor countries, and would like to develop alternative financing schemes for health research so that patents can be avoided.

Considerations of the Commission

Norway makes an active contribution in the WTO and WHO for developing countries to gain access to new knowledge and technology. The Commission believes however that this policy is counteracted by the policy in other areas. Bilateral trade agreements and the harmonisation of patent protection put restrictions on poor countries' access to knowledge and new technology. Additionally, the Norwegian authorities are not leaders in ensuring free access to publicly-financed research, which would be a major advantage for developing countries.

Developing new knowledge through research and innovation is an area where a small country such as Norway can make a major contribution and Norway has the right conditions for doing so. The propagation of knowledge is more complex. The Commission believes it is important that countries such as Norway contribute through aid and national and international initiatives in order to counteract the restrictions that are placed on the propagation of knowledge to developing countries. Research can increase coherence through the large potential for synergies with the development policy that exist. The copyright legislation policy can reduce the coherence by undermining the development policy goals if copyright legislation prevents the poor's access to existing knowledge.

21. Tvedt, Morten Walløe (2008): Nasjonale og internasjonale reguleringer av immaterielle rettigheter – konsekvenser for fattige og fattige land (National and international regulations on intellectual property rights – consequences for the poor and poor countries). Note to the Policy Coherence Commission www.utviklingsutvalget.no

The Commission makes reference to the technology component of the Commitment for Development Index (CDI) to show how rich countries' policy supports the production and sharing of knowledge and new technology that can improve the living conditions in poor countries. CDI adds positive weight to public financing and tax deductions for research, but has a negative score with regard to relations within the patent and copyright set of rules, which limits the flow of knowledge over country borders. The USA's score is pulled down for efforts related to compulsory licensing, and European countries are given deductions for the EU's database directive. France is in first place for spending a whole 1 per cent of the GDP on publicly-financed research. Canada is in second place for having the least restrictive copyright legislation policy of all the countries that are included in the measurement.

Norway is sixth out of 18 countries. High tax subsidies to companies for research and development (no. 4) and limited patent cover for software gets Norway a higher ranking. With regard to Government focus on research and development, Norway is average (no. 9). Norway's introduction of the EU's database directive, which provides patent-like protection on collections of existing facts, pulls its ranking down.

A more coherent knowledge policy will, the Commission believes, entail stepping up the public financing of research and prioritising higher poverty-related research and a strengthening of research environments in developing countries. A coherent policy for development must also to a greater extent take into consideration the fact that education and sharing of knowledge are affected by many policy areas, in addition to the education and research policy and development policy. Norway's trade and industry policy introduces more stringent copyright legislation protection in Norway, and is involved in introducing more stringent copyright legislation protection in developing countries through WIPO and bilateral trade agreements. Norway is hereby part of a global trend, which is a disadvantage for the poorest countries. The policy development takes place in an empirical vacuum, which means that it is not well founded and the long-term consequences are unknown. Neither is the policy consistent with Norway's role as a bridge-builder in WTO/TRIPS. The difference can be due to poor coordination between different ministries that have responsibility for their individual fields.

The Policy Coherence Commission believes in general that the knowledge policy is an area with major potential for achieving synergy effects with the development policy goals, and that higher education and research should be made into an interdisciplinary focus area. An escalation of the research effort in Norway should be combined with the development of knowledge also of relevance for development in poor countries, and particularly for the poorest population groups. Increased focus on further developing such knowledge and expertise in Norway can give Norway an advantage within new technology areas or within areas where Norway already considers itself to have a niche on an international basis. If Norway wants to have a position internationally within areas of special relevance for developing countries such as the environment, climate, energy and health, national research funds must be released in order to ensure that the Norwegian knowledge base is further developed and maintains a sufficient quality in the long term.

Commission member Kristian Norheim does not share the views expressed under paragraph 8.3.3.

8.4 Proposal for initiatives within the knowledge policy

8.4.1 Knowledge development aimed at the needs of the poor

Initiative 1: Include global knowledge needs and the developing countries' knowledge needs in all of the ministries' sector responsibilities for research, and in the mandates for public research institutions such as universities and university colleges.
Initiative 2: Prioritise global knowledge needs and the developing countries' knowledge needs in the escalation of public research, particularly within health, agriculture, the climate/energy and democratisation, good governance and income distribution policies. This can be done by extending existing programmes in the Norwegian Research Council and by stimulating the university and university college sector and research institutions, as well as international initiatives (see initiative 3). At least 10 per cent of the research efforts should be targeted towards this.
Initiative 3: Lead international efforts to ensure suitable financing mechanisms that safeguard the development of knowledge and technology aimed especially at the needs of the poor. Specifically, Norway should:

– Initiate efforts to evaluate the effectiveness of the many, uncoordinated international health initiatives. Further, investigate any potential for

coordinating existing multilateral research initiatives and consider to initiate a global fund for health research under the WHO, ref. the proposal by the Commission for Macroeconomics and Health (see paragraph 8.2). Undertake efforts to ensure that global health research resources help develop national health research systems in the developing countries instead of a number of uncoordinated international efforts in the individual countries (see also initiative 6).
- Continue to support international efforts for agricultural research and work towards a greater emphasis on Africa's needs for increased productivity and sustainable resource utilisation. Women have a key role in African agriculture and research, and efforts to promote their role must be prioritised.
- Strongly support existing global funds and networks within climate research and biodiversity that help develop knowledge for and with developing countries.
- Facilitate research collaborations between universities, university colleges and research institutes in Norway and developing countries, with special emphasis on capacity development, local dissemination and collaborations in international publishing. The NUFU and NOMA programmes for collaboration on research via doctorates and MSc studies should be extended.

Commission member Kristian Norheim does not support initiatives 1 – 3.

8.4.2 Building the knowledge base in developing countries

Initiative 4: As a commissioning party within research and evaluation, the Norwegian authorities should stimulate the use of research environments from developing countries. The development aid authorities should implement special measures to involve research environments in the recipient countries in implementation research, reviews and evaluations of aid in connection with sector programmes and other major aid focuses. The aid within higher education and research should be stepped up and aimed at strengthening the university environments in developing countries and regional research programmes, and facilitating local collaborations between universities and the institute sector. The Norwegian authorities should work internationally in order to establish a scheme similar to the Norwegian Centres of Excellence for research environments in developing countries. In general, the aid policy within all sectors should contribute to a greater extent to the partner countries being better equipped to develop relevant knowledge for the private sector and society at large.

- Support the development of professionally strong research environments in developing countries with a focus on democratisation, good governance and income distribution policies. The aid within higher education and research should be stepped up and aimed at strengthening the universities and institute environments and regional research programmes.
- Prioritise support for research on women's role in poverty reduction, and earmark funds for scholarships for women from the poorest countries locally, internationally and in Norway. Facilitate these women's capability to take on positions as researchers and managers in the university and institute sector.
- The Norwegian authorities should work internationally to establish a scheme similar to the Norwegian Centres of Excellence for research environments in developing countries. In general, the aid policy within all sectors should to a greater extent contribute to the partner countries being better equipped to develop relevant knowledge for the private sector and society at large.

Initiative 5: The Norwegian Research Council should be commissioned to evaluate how Norwegian research programmes can better be accessible for researchers from developing countries. This must be combined with an increase in available funds.

Initiative 6: In the event of equal quality in the application, research environments in developing countries should be prioritised in allocations from the global research funds proposed in initiative 3. It should be considered whether allocations from global funds require participation from/collaboration with research environments in developing countries.

Initiative 7: With Norway's special, positive experiences in how statistics and social planning can form the basis for building a welfare state, the Norwegian authorities should actively contribute to supporting the development of statistics and information for good governance towards economic development and poverty reduction.

Commission member Kristian Norheim does not support initiatives 4 – 7.

8.4.3 Knowledge and technology transfer to poor countries

Initiative 8: The Norwegian authorities should instruct public research institutions and recipients of public research funds to make research results publicly available by 1) entering published articles and results in freely available electronic databases (Open Access), as is currently the practice in the EU, USA and a number of other places, and 2) licensing out patented technology on favourable terms to low-income countries.

Initiative 9: The Policy Coherence Commission, with the exception of Kristian Norheim, believes that Norway should initiate an international effort to prevent developing countries being forced against their will to introduce more stringent protection of intellectual property rights, by:

- Continuing the efforts to introduce a compulsory provision of information on country of origin in connection with patent and plant variety protection within genetic material and traditional knowledge.
- Working to stop the development of a world patent in formal and informal fora in the WIPO. It will be important in this work to study in more detail the effects that a world patent will have on innovation, development and poverty reduction.
- Initiating a renegotiation of the TRIPS agreement with a view to introducing greater exceptions and national adaptation for developing countries in the TRIPS agreement. Strive towards a general exemption in copyrights based on considerations for development, poverty reduction, farmer's rights and the fight against diseases.
- Support developing countries to devise a system for plant variety protection adapted to their needs and in line with the flexibility in article 27.3b of the TRIPS agreement.
- Ensure within UPOV that UPOV-78 is reopened for developing countries that wish to affiliate themselves with UPOV without restricting the farmers' rights for the reuse of seed grains.

Chapter 9
Migration policy

9.1 Migration and the effect on poverty

The reasons for people relocating over country borders are many and complex. It could be due to necessity as a result of escaping war, persecution and disasters. It can also be because there is a desire to find work or get an education. A large number of relocations are family related. Many seek to reunite with family members that have already left to find work or take up education, or who have fled. There are also those who marry abroad and seek to immigrate.

The number of international migrants has doubled since 1980. Today there are almost 200 million migrants internationally[1]. However, migrants only make up a small percentage (3 per cent) of the world population. In the developed world, the share of migrants in the population, according to the OECD, is three times higher. Figures from the World Bank show that migration from south to north constitutes more than a third of all international migration. A quarter of all migration takes place between developing countries, while relocation between developed countries accounts for 16 per cent. With regard to the inhabitants of the world's poorest countries, migration represents a sought after, but limited opportunity to escape poverty, since people from these countries only make up a small part of the global migration flows[2]. In relation to the population, voluntary migration (as opposed to refugees and asylum seekers) is greatest in middle-income countries such as Mexico, Morocco, Turkey, Egypt and the Philippines. The

1. GCIM (2005) Migration in an interconnected world: New directions for Action, Report of the Global Commission on International Migration, http://www.gcim.org/attachements/gcim-complete-report-2005.pdf

2. World Bank (2006): Global Economic Prospects. Economic Implications of Remittances and Migration. http://www-wds.worldbank.org/external/default/WDSContentServer/IW3P/IB/2005/11/14/000112742_20051114174928/Rendered/PDF/343200GEP02006.pdf

Figure 9.1 Increasing numbers are moving from one country to another.

migration from the poorest countries is mainly to other developing countries.

Migration can have both positive and negative effects on poverty. For the individual, migration is a way out of poverty – an opportunity to improve the living conditions for themselves and their families, as was the case for Norwegian emigrants to America at the end of the 1800s. The consequences for the society at large in the countries of departure can be both positive and negative.

Research shows that well-qualified labour emigrates more than the less qualified. According to the OECD and the World Bank, however, migration of unskilled labour has had a greater potential effect on the reduction of poverty than the migration of skilled labour. In the first place, the unskilled workers send more money home. Possible explanations for this can be that unskilled workers migrate for a shorter period, have a desire to return to their native country and often have to leave their family behind. In addition, the migration of less qualified workers probably leads to a reduction in the unemployment in their native country. The fact that migration for employment purposes can have positive effects for both the country of dispatch and the recipient country is also indicated by a study in which it is estimated that if industrialised countries open their labour markets for a 3 per cent higher share of foreign labour, this would mean an annual economic gain on a global basis of USD 150 billion. This is 1.5 times the gain that is estimated for full liberalisation of the commodity trade[3].

A review by the OECD shows that the vast majority of unskilled migrants in OECD countries are from middle-income countries. Only three per cent of unskilled migrants in the OECD area are from Sub-Saharan Africa, while only 4 per cent are from South Asia. The number of unskilled migrants from middle-income countries in Latin America, East Europe and Central Asia is much higher.

The migration of well-qualified labour for which there is a shortage in their native country can have a considerably negative effect on the development of poverty. The world's poorest countries are often double losers in international migration: they do not utilise the benefits of migration of unskilled labour and they are hit hard by migration of skilled labour, i.e. brain drain.[4]

The health sector is particularly susceptible to brain drain. A number of countries in Africa south of the Sahara have less than 20 nurses per 100,000 inhabitants, while the figure in industrialised countries is 50 times as high[5]. In the Philippines, which has actively used migration as a development strategy, 15 per cent of the population with higher education migrate, while only 1.5 per cent of those with only basic schooling migrate[6].

The migration of skilled labour is largely assumed to have a negative effect on the development in the country of dispatch, as is the migration of highly sought after health personnel from Africa to rich countries. However, countries that were poor but are now enjoying high economic growth, such as Taiwan and South Korea, are experiencing that previous migrants are returning home with an education and international experience and contacts. The explosive growth in the IT industry in Bangalore in India is to a large extent driven by Indian IT workers that have returned after staying in the USA and other western countries. This is a good example of positive circular migration. However, it is worth noting that the returning flow takes place after the situation in the native country has changed dramatically.

Migration can contribute to a brain *gain* if the opportunity to emigrate influences more people in the countries of departure to take a higher education. The major increase in the number of nurses in the Philippines illustrates this. This mechanism does not work, however, in all of the poorest countries, where the opportunities to undertake such education are much more limited.

Another unfortunate consequence of migration of skilled workers, is that the country's ability to build and maintain good institutions is impaired. There is much agreement on the importance of well-functioning institutions for economic and social development and this field is weakened by the emigration of skilled workers[7].

Most migrants transfer considerable sums of money to relatives back home, and remittances are by far the greatest source of foreign currency for

3. Tamas, Kristof (2006): Towards a Migration for Development Strategy. Report commissioned by the Swedish Ministry of Foreign Affairs
4. OECD (2007), Policy Coherence for Development 2007 – Migration and Developing Countries, http://www.oecd.org/dev
5. World Health Organisation (2006) World Health Report 2006: Working Together for Health
6. Tamas, Kristof (2006): Towards a Migration for Development Strategy. Report commissioned by the Swedish Ministry of Foreign Affairs
7. Kapur, Devesh et al (2005) Gives Us Your Best and Your Brightest, The Global Hunt for Talent and Its Impact on the Developing World, Center for Global Development http://www.cgdev.org/content/publications/detail/4415

many poor countries. The World Bank has estimated that total remittances from developed countries to developing countries through formal channels were approximately USD 240 billion in 2007. This is more than double the official aid in the world and corresponds to almost two thirds of the total foreign direct investments in developing countries[8]. If transfers through informal channels are included, the amount increases by around 50 per cent[9].

The World Bank's study of international migration and economic development, «International Migration, Economic Development, and Policy» shows that remittances have a clear positive effect on the reduction of poverty in the families receiving the money. Exact measurements of this are difficult, since this entails assumptions of what the migrants would have earned if they had been in their native country, but a great deal of research indicates that this is correct. A survey of 12 countries in Latin America and the Caribbean shows that remittances have had the greatest effect in Mexico and El Salvador, where the migrants come from low-income families. Extreme poverty (less than USD 1 per day) has fallen more than 35 per cent in both countries. The share of the population that lives on less than USD 2 per day has fallen by 15 per cent in Mexico and 21 per cent in El Salvador. The average fall in extreme poverty and poverty for the 12 countries is 14 and 8 per cent respectively. It is difficult to attribute all of this to remittances but the correlation is clear.

While the effect for those receiving remittances is predominantly positive, it is more uncertain what effect the transfers have on economic growth in developing countries. While savings, investments and consumption are increasing, there is also the risk of the exchange rate increasing, with invidious effects for the export revenues and recruitment. The incentives for creating one's own basis of existence can also be envisaged to be less for some of those with the opportunity to live on transferred funds. There is also the risk of increasing property prices and increased prices of services that are not imported, which is a drawback for the poorest that do not receive money from abroad. As in the same way for large amounts of aid, there is thus a certain risk of increased dependency on remittances from abroad[10].

Remittances can also have consequences for the income distribution in the recipient countries. Where the migrants are mainly from the poor part of the population (which they rarely are), remittances can contribute to a more even distribution. Where they come from families with higher incomes, the income disparities in the country of dispatch can increase. A study conducted in 2007, however, shows that increased remittances generally lead to a fall in the number of extremely poor and that remittances put those living under hard economic conditions and regimes with poor governance in a better position to manage financially[11].

There are also clear correlations between migration and children's education and health. Children in families with migrants have more opportunities for attending school and staying there longer than children from families with no migrants. The effect is particularly strong for girls, where the share that starts school increases by 54 per cent. For boys, the increase is only 7 per cent. Some of this, but not all, is mainly due to the fact that in principle more boys attend school. Girls from migrant families complete almost two years more of schooling than girls in families with no migrants. Other studies have shown that remittances have a positive effect on outlays for education in midlle- and high-income households, and have a positive effect on outlays for education in households where parents have limited education. Families that receive remittances also have relatively fewer children that need to work. This particularly applies to girls. Studies also show that remittances have a positive effect on children's health, and the effect is particularly strong in low-income households.

The recipient countries' systems for controlling immigration partly determine what type of immigrants come to the country. Canada and Australia, for instance, use point systems, where migrants are chosen based on qualifications and can apply for jobs when they arrive in the country. The principle of job offers is also common in Europe. The

8. World Bank Migration and Development Brief 3, Development Prospects Group, Migration and Remittances Team November 29, 2007, Remittance Trends 2007, by Dilip Ratha, Sanket Mohapatra, K. M. Vijayalakshmi, Zhimei Xu
9. World Bank (2006): Global Economic Prospects. Economic Implications of Remittances and Migration. http://www-wds.worldbank.org/external/default/WDSContentServer/IW3P/IB/2005/11/14/000112742_20051114174928/Rendered/PDF/343200GEP02006.pdf
10. Carling et al (2007) Legal, Rapid and Reasonably Priced? A Survey of Remittance Services in Norway, PRIO http://www.norad.no/default.asp?V_ITEM_ID=8489 and Carling, Innvandrere prioriterer å sende penger til familien (Immigrants prioritise sending money home), Samfunnsspeilet 6/2004
11. World Bank Migration and Development Brief 3, Development Prospects Group, Migration and Remittances Team November 29, 2007, Remittance Trends 2007, by Dilip Ratha, Sanket Mohapatra, K. M. Vijayalakshmi, Zhimei Xu

USA[12] has systems that build on the migrants having job offers before they receive a residence permit and systems that don't. The Norwegian system for immigration for work purposes is also based on job offers being available before a residence permit is granted. Skilled labour can obtain a work permit that forms the basis for long-term settlement and family reunification, while unskilled works mainly arrive as seasonal workers or for other types of fixed-term stays with no such opportunities.

A number of migrants return home after a while. It appears to be asylum seekers and family members that arrive on family reunification schemes that are least likely to return to their native country. With regard to those who actually do go back, there are strong indications that they obtain qualifications/expertise during their stay that those remaining in their native country do not have. A study of emigrants that return to Egypt shows that they earn almost 40 per cent more than corresponding occupational groups that have not emigrated. Another explanation can of course be that those who left already had skills and resources that the others did not have. The survey also shows that long stays out of the country lead to much higher incomes than short stays, but which country they have been to does not seem to have a bearing[13].

In some cases, it can therefore appear that circular migration works as intended: the recipient countries and companies there earn from having the migrants in work for shorter or longer periods, the migrants themselves have earned money and acquired new qualifications/expertise, the families in the native countries have received money while they were gone and the migrants return home with an increased level of knowledge. Although this works well in a number of cases, however, the factors that made the migrants want to leave their native country are the same as those taken into consideration when they think about returning. If the conditions in their native country have not improved significantly or if they have not managed to attain skills and resources that will improve their living situation considerably, it is likely to take a great deal to get them to return voluntarily.

12. USA's H1-B programme enables non-immigrant visas for highly specialised labour – at least a Bachelor degree. The scheme is tied to a special employer. http://en.wikipedia.org/wiki/H1B_visa The USA also has its green card system. http://en.wikipedia.org/wiki/United_States_Permanent_Resident_Card which entitles the holder to permanent residence.
13. «International Migration, Economic Development, and Policy». World Bank 2006

Considerations of the Commission

An assessment of the Norwegian migration policy from a poverty perspective should build on both an individual perspective and a social perspective. Migration can be a way out of poverty for the individual, and the consequences for the country of origin can be both positive and negative, depending on the migrants' characteristics as well as the resources that are accruing to the country of origin.

International migration can have a considerably positive effect on poverty reduction. Migration can contribute the most to poverty reduction when there is unskilled surplus labour that emigrates from poor countries, but can have a negative effect when it is mainly skilled surplus labour that emigrates. There are strong indications therefore that the benefits of migration are unevenly distributed. As it stands today, poor countries are double losers in international migration. The migration of unskilled labour from the poorest countries is very limited, but poor countries are overrepresented among those that have experienced a large emigration of well-educated inhabitants. The Commission's proposal for initiatives is aimed at rectifying such imbalances.

Commission member Kristian Norheim does not support this description.

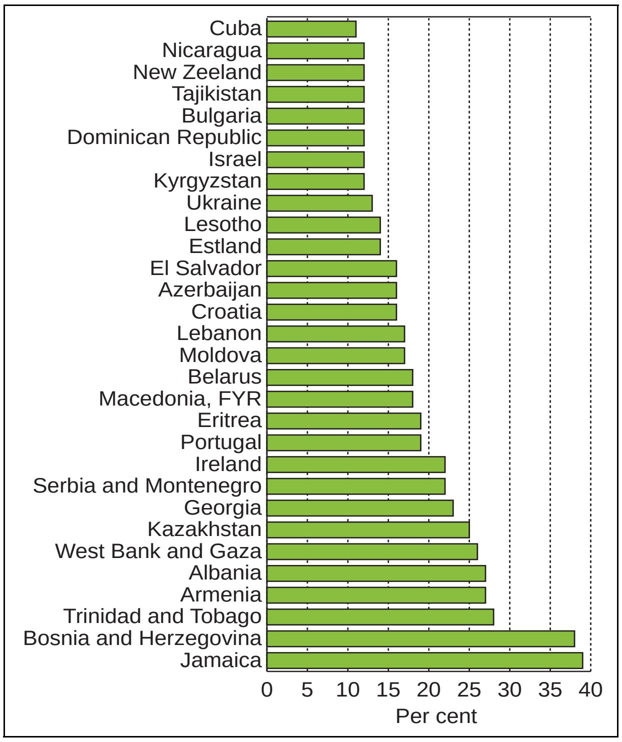


Figure 9.2 Key countries of dispatch. Emigrants as a percentage of the population[1].

[1] Excluding countries with less than 1 million inhabitants
Source: Development Prospects Group, World Bank.

9.2 A global perspective on migration

9.2.1 Migration and decent work

Increased migration is closely linked to the increasing globalisation. Reduced transport costs have enabled many to relocate abroad. However, potential migrants have in no way had the same opportunities for freer movement across country borders compared to the wave of liberalisation in the capital markets at the start of the 1990s. There are still stringent restrictive rules in place for the international migration of labour and the rights of migrant workers are considerably poorer than for example the strong legal protection that foreign investments have had.

A substantial increase in illegal immigration has taken place in recent years. The ILO estimates there to be between 15 and 30 million illegal immigrants on a global basis, and the number is increasing[14]. Many of the migrants take jobs that the local population does not want. They are overrepresented in occupations with major health risks and often fall outside social schemes. Based on this, the ILO has strengthened its efforts for decent work. This agenda has four strategic goals: work opportunities, workers' rights, social protection and safety, as well as dialogue and third party collaborations. The goals apply to all workers, men and women, both those that are employed in the formal and the informal sectors.

One of the hot topics in the debate surrounding the protection of migrant workers' rights and the rights of workers in developing countries is how strong the legal protection should be. Many developing countries are opposed to legalising wide-reaching economic and social rights as they think it will price them out of the global markets, prevent infant industries from developing and thereby stopping or obstructing economic growth. It is claimed that rich countries use the requirement for decent work and labelling requirements for goods as a cover for protection of their own markets and products. Further details of this problem are given in the chapter on investments.

14. ILO (2004): A FAIR GLOBALIZATION: CREATING OPPORTUNITIES FOR ALL, World Commission on the Social Dimension of Globalization

9.2.2 Human trafficking and illegal migration

International human trafficking is closely connected with many of the same factors that give incentives to seek work abroad. In addition, many children are abducted or sold and sent away from their native country. Adults imagine that work in rich countries is a way out of poverty and that they will get work once they get there. The middle men ensure that they get into these countries and many put themselves in great debt to them. They subsequently end up in prostitution or slave work in order to pay back the cost of the journey. Human smuggling and human trafficking of women has become a major industry that profits extensively from the world's poor and most vulnerable. It is estimated that this often organised criminal activity is second only to the illegal trade of arms. Employers in many countries use such illegal labour, which is cheap, easily replaced and can easily be controlled using violence or threats to them or their family. The epicentres for human trafficking are changing. Earlier, most victims were from South and East Asia. After the fall of the Soviet Union, the Mafia took over much of this area in Eastern Europe. There is a strong international focus on curbing human trafficking. A number of UN organisations, OSCE, the Council of Europe and ILO are working on this issue, as are the IOM, many NGOs and various countries' immigration and police authorities, as well as Interpol. However the incentives to escape poverty and to earn money for those who want it, are strong. Substantial efforts are therefore still required to terminate human trafficking. A formalised labour immigration system from developing countries, including for women, can help to reduce their vulnerability and the risk of ending up as a victim.

9.2.3 Increased international competition for labour

The increase in the migration of skilled labour started on a global basis in the 1990s and is still growing. Persons with a high education migrate relatively more often than those with little or no education (See table 9.1). For many poor countries, the share with a high education that has moved to rich countries is very high. Some African countries are experiencing a dramatic brain drain: in a number of countries, one out of four with a high education live outside the country borders. (See table 9.2)

According to a study,[15] a number of factors can be regarded as the basis for the increased migration of highly qualified labour. First, the global knowledge economy is driven by technological progress, rich countries compete with each other for the best heads and have a need for specialist expertise. This is particularly true within engineering and scientific disciplines, where rich countries experience recruitment problems. For example, a sixth of the employees in the American IT sector are immigrants[16]. Second, the population in western countries is becoming increasingly older. This has consequences for the labour market since rich countries will need more employees in health and social services. The high costs linked to an ageing population can also lead to rich countries wanting to attract highly paid migrants, which through tax can help to pay for pension and health services. Third, the globalisation of production and trade is contributing to more workers relocating.

Highly qualified labour in poor countries can have strong incentives to migrate. Low salaries, poor working conditions, lack of resources and limited opportunities for further education and a career, as well as much better conditions in rich countries are often deciding factors[17].

9.2.4 International processes

The Global Commission on International Migration, was established in 2003. The Commission submitted its report in 2005. In September 2006, the UN arranged the first high level dialogue on international migration and development. One

15. Kapur, Devesh and John McHale: «Give Us Your Best and Brightest: The Global Hunt for Talent and Its Impact on the Developing World. (Washington, DC:Center for Global Development, 2005).
16. Guellec, D. (2003) Introduction, SciDev.Net Dossiers on Brain Drain http://www.scidev.net/dossiers/index.cfm?fuseaction=dossierfulltext&Dossier=10
17. Meyer, J.B. (2003) Policy implications of the brain drain's changing face; SciDev Dossier http://www.scidev.net/Dossiers/index.cfm?fuseaction=policybrief&policy=24&dossier=10&language=1

Table 9.1 The best educated have the greatest tendency to emigrate*

	1990		2000	
Country of origin	Compulsory schooling	Upper secondary	Compulsory schooling	Upper secondary
Mexico	6.5	10.4	9.5	14.3
Philippines	1.1	12.8	1.4	14.8
India	0.1	2.6	0.1	4.2
China	0.1	3.1	0.1	4.2
El Salvador	8.2	32.9	11.2	31.5
Dom. Republic	3.8	17.9	5.8	21.7
Jamaica	11.0	84.1	8.3	82.5
Colombia	0.5	9.2	0.8	11.0
Guatemala	2.1	18.2	3.5	21.5
Peru	0.3	5.6	0.7	6.3
Pakistan	0.2	6.1	0.3	9.2
Brazil	0.1	1.7	0.1	3.3
Egypt	0.2	5.3	0.2	4.2
Bangladesh	0.1	2.3	0.1	4.7
Turkey	4.2	6.3	4.6	4.6
Indonesia	0.1	6.2	0.1	2.0
Sri Lanka	0.8	24.8	1.9	27.5
Sudan	0.0	5.0	0.1	5.6
Tunisia	4.6	12.3	4.2	9.6

* Percentage of the population that immigrated to OECD countries, by level of education
** Kapur, Devesh et al (2005) The Global Migration of Talent: What Does it Mean for Developing Countries, CGD Brief http://www.cgdev.org/content/publications/detail/4473

Source: Center for Global Development**

result of this meeting was the establishment of the global migration forum. The forum had its first meeting in Brussels in the summer of 2007 and its next in Manila in October 2008. The three key topics at the Manila meeting were migrants' human rights and development, forms of legal development-promoting migration and coherence between the migration and development policy at the institutional and political level. The migration issue is brought into the UN through the Secretary General's Special Representative for Migration and Development, Peter Sutherland, who took part in the preparatory work for Manila and at the conference.

Under its EU presidency, France will arrange a ministerial meeting on migration and development in Paris in December 2008. Preparations have been made for this with participation from developing countries through three preparatory conferences: in Morocco on legal forms of migration, in Burkina Faso on illegal migration and in Senegal on the development effects of migration. In recent years, the EU has undertaken a more holistic approach to the policy areas of migration and development.

As a global phenomenon, migration requires both global and regional collaboration. The EU is the most important participant in Europe. Norway's association with the EU through the EEA agreement and the Schengen cooperation means that the policy developed by the EU can also have a bearing on the decisions in Norwegian policies. One example of the EU's effort to harmonise practice and procedures in this area having a bearing on Norway is the Directive on Returns, which Norway will be bound by through the Schengen agreement. This means that Norway must make certain changes to laws and regulations that reinforce the rights of citizens in non-EU countries that are sent back because they are staying in Norway illegally.

9.2.5 Services trade

The service sector makes up around half of the GDP in developing countries, compared with approximately 60 per cent in developed countries. The sector is also among the fastest growing in many countries and is also extremely important for enabling growth in other sectors[18]. The Uruguay round extended the trade negotiations in GATT and subsequently the WTO to also include services. However, most of the focus is on the services where rich countries typically have the advantage,

Table 9.2 Percentage who live abroad of those with university and university college education from various African countries

> 50 %	Cape Verde, Gambia, Seychelles, Somalia
25–50 %	Angola, Equatorial Guinea, Eritrea, Ghana, Guinea Bissau, Kenya, Liberia, Madagascar, Mauritius, Mozambique, Nigeria, Sao Tome & Principe, Sierra Leone
5–25 %	Algeria, Benin, Burundi, Ivory Coast, Cameroon, Chad, Comoros, Congo, DRC (previously Zaire), Djibouti, Ethiopia, Gabon, Guinea, Malawi, Mali, Mauritania, Nigeria, Morocco, Rwanda, South Africa, Senegal, Sudan, Swaziland, Tanzania, Togo, Tunisia, Uganda, Zambia, Zimbabwe
< 5 %	Botswana, Lesotho, Burkina Faso, Central African Republic, Egypt, Libya, Namibia

Source: Center for Global Development

such as banking, insurance and information technology. Poor countries normally have a surplus of low-educated labour, so the liberalisation of the services trade that is intensive in its use of low-educated labour would therefore represent an export opportunity for poor countries. Many types of services are difficult to trade without moving the labour to the place where the service is supplied. There is a close connection here between the countries' trade and immigration policy. Calculations show that employment in rich countries of some of the surplus that poor countries have of low-educated labour could have given incomes that are many times higher than the gains to be had by liberalising the capital markets in these countries. Restrictive regimes for the movement of labour prevent such development[19].

The developing countries have made demands for increased trade in services. Their key requirement is the right to short-term migration for

18. Stiglitz, Joseph E. and Andrew Charlton (2005), Fair Trade For All, Oxford University Press (side 237)

19. Stiglitz, Joseph (2006): Making Globalisation Work. Norton.

employment purposes – 3 months to 5 years – either as self-employed, internally between different parts of the company, or sent by a company to carry out short-term duties. Such short-term migration for work purposes – which Mode 4 in the GATS negotiations applies to – does not include seeking work in another country or permanent migration. It will therefore only cover a small part of total migration.

India has in this regard formulated a proposal with four points.

- Provide free and accessible information on the opportunities for short-term labour migration
- Treat labour migrants equally regardless of their country of origin
- Standardise and harmonise qualifications and experience by means of agreements
- Remove all obstacles for the free movement of skilled labour, the opportunity to compare wage conditions and qualification requirements

Short-term or more permanent labour migration and service trade represent both an opportunity for poor countries to reap the rewards from the economy in rich countries and for the rich countries to get the necessary top-up of labour. Services trade and temporary labour migration will also help to solve the problem of providing enough labour for care services in countries with a relatively small work force. Tax revenues from services trade and labour migration will also be able to finance pensions and care services.

Many OECD countries have for a number of years been open to a certain temporary/short-term labour migration, either on a broad basis as is the case for some continental European countries, or mainly on a seasonal basis, as is the case for Norway. Short-term labour migration in Norway had a significant scope up to 2003 and was the largest category of work permits that were granted for many years. After the EEA expansion to many of the countries from which the seasonal works emanated, the scope has been significantly reduced. The Commission believes that either the authorities or the labour organisations have placed sufficient emphasis on ensuring the short-term immigrants' employment and wage conditions.

With the expansion of the EU and the new and broader EEA labour market, the situation has changed fundamentally, whereby the short-term labour migration has increased in breadth and scope and the discussion on the EU's service directive on how to ensure that tariff agreements are made valid for foreign companies in Norway and how to generalise (more) tariff agreements have become topics on the political agenda.

9.2.6 Women in international migration

Women make up almost half of all migrants worldwide. The share of women increased from 46.7 per cent in 1960 to 49.6 per cent in 2005. Around 95 million women are migrants today compared with 85 million in 2000. The World Bank study «Women in International Migration» shows that there are clear differences between women and men with regard to reasons for migration as well as in relation to how the money they send home to their family is spent.

The presence of family in the country a person moves to is a relatively strong motivation factor compared to the majority of macroeconomic and political factors. In addition to this, men have a strong motivation to have female family members living in the country they are moving to, while it appears that women's network at home plays a relatively stronger role for them.

The report also shows that the tendency that is seen in many countries for women to be most involved in the direct supply of food for the family and men most in the production of food and other goods for sale, means that men's migration entails an immediate fall in the family's total income-generating production. This is compensated, however, in the next round by money sent home. Women's money that is sent home appears to increase the total family income the most. The fact that they leave affects the direct supply of food more than the family's income-generating activities. Some of this disappearance of food production must however be compensated through buying food.

Another important effect of women's migration appears to be that the share of family income that is spent on children's education is lower than in households where the man is the migrant. This implies that men place less emphasis on children's education than women (and that the children often travel with the women). This is supported by findings that indicate that households with a female head that receive remittances increase the share that is spent on housing, durable goods and health services and less on food, while this is not the case in households where the man is at home[20].

Human trafficking is the negative side of female migration. Both women and young girls are exploited often after being smuggled into a coun-

20. http://siteresources.worldbank.org/INTGENDER/Resources/overview.pdf

try and ending up in debt to the men behind it. They then often end up as domestic help on slave contracts or as prostitutes.

Considerations of the Commission

While there has been a strong liberalisation pressure for freer flows in the capital markets, extremely restrictive regimes have been applied to the movement of labour. Some developing countries have therefore made demands in the WTO to liberalise the trade in services that entail relocating people from one country to another (mode 4 in the GATS negotiations) and want to enable an increase in short-term labour migration. The Commission recommends that Norway tries to a greater extent to comply with the developing countries' proposals on the liberalisation of movement of labour in the GATS negotiations. Norway should take the initiative to report on how labour migrants can be treated more equally regardless of their country of origin.

Experience shows that it is difficult to set conditions for the migration of labour to be circular. A significant number of those arriving will want to remain in the country. Many migrants have, however, both education and expertise that is sought after in their native country. Migrants that want to move between their native country and country of work now face a number of challenges. In Norway, the risk of losing permission to stay on in the country during longer trips away from Norway can prevent migrants from travelling home. The Commission believes it is important that more is done to make it easier for those who wish to use their experience in their native country.

The Commission would like to point out that women are particularly affected by poverty and a shortage of work in their native countries. Women constitute a large share of the world's unskilled labour and make up more than half of the world's labour migrants. Irregular migration and human trafficking must be regarded in context of a lack of opportunities for legal migration. The more closed the legal migration opportunity is, the larger the market for irregular migration. Women are particularly vulnerable to exploitation in a migration situation. Many of the asylum seekers and the poorest labour migrants resort to human smugglers to get into a country where they can seek asylum and work. Many incur large debts in order to travel, and the routes are often perilous. Human smuggling and human trafficking of women has been a major industry that profits substantially from the world's poor and most vulnerable, often with promises of residency and work in developing countries. A formalised labour migration system from developing countries, including for women, can help reduce this vulnerability. The Commission's assessment is that a more liberal migration and refugee policy with a clear gender perspective will be a key tool in the fight against human trafficking and global poverty.

Kristian Norheim does not support these views.

9.3 Immigration to Norway

9.3.1 The White Paper on labour immigration

In April 2008, the Government presented a new report to the Storting on Labour Migration (Report no. 18 to the Storting (2007–2008))[21]. The basis of the report is that in light of the demographic development, Norway among others has a need for immigration in order to cover future labour needs. It provides a thorough review of this need and takes its basis in the fact that it can mainly be covered in Norway. Mobilisation of unused domestic capacity is central together with continued immigration from the EEA area, but some immigration from countries outside the EU/EEA area may be necessary. The following includes references to the main points in the report.

9.3.2 Migration flows to Norway

Immigration to Norway in recent decades can mainly be linked to the main migration flows: work, flight, family and education. Between 1990 and 2006, more than 284,000 persons of non-Nordic citizenship immigrated to Norway. Around 43 per cent arrived as a result of family immigration, 29 per cent as refugees, while 16 per cent is due to labour migration. A total of 11 per cent arrived in Norway for educational purposes[22].

Today the immigrant population[23] in Norway consists of 415,000 persons, which corresponds to 8.9 per cent of the population. The three largest immigrant groups in Norway have backgrounds from Pakistan, Sweden and Iraq. In 2006, around three out of four immigrants had backgrounds

21. AID (2007) Labour Migration http://www.regjeringen.no/nb/dep/aid/tema/andre/Arbeidsinnvandring.html?id=976
22. The figures are from Statistics Norway and are available at: http://www.ssb.no/innvbef/
23. Defined as persons with two foreign-born parents: first-generation immigrants that have immigrated to Norway, and persons born in Norway with two parents born abroad.

from non-western countries. These constitute 6.6 per cent of the population. The corresponding figure in 1986 was 1.1 per cent[24].

9.3.3 Labour market in Norway

Norway currently has unused labour resources among those who have already immigrated to the country. The share of first-generation immigrants in employment is around 60 per cent, compared with 70 per cent for the population as a whole. Non-Western immigrants have a lower employment rate than others. Immigrants from Africa have an employment rate of 45.2 per cent. The lowest employment level is among immigrants from Somalia, with 31.7 per cent. Next are the immigrants from Afghanistan and Iraq, with an employment rate of slightly more than 41 per cent in each group. The low employment rate is partly due to the fact there are many refugees from these countries that have lived for a short period in the country, that they have a low level of education and women have a low labour force participation. There are also immigrant groups with a long period of residence in Norway with a low labour force participation rate. Immigrants from Pakistan currently have an employment level of 46.3 per cent, which is mainly due to extremely low employment among women with a Pakistani background (only 29.1 per cent employment for women, 62.2 per cent for men). The figures also indicate a lack of integration and discrimination in employment[25].

A study from 2002 shows that the income of non-western immigrant families is 25 per cent lower on average than the average income for the population as a whole. For an immigrant family that has lived in the country for five years the income gap is half of this. A substantial share of immigrant families is represented in the lowest income class. A total of 36.7 per cent of the families from East Europe and 41.5 per cent of the families from Asia, Africa and Central and South America had an income after tax of less than NOK 199,000, while this share was 5.2 among non-immigrant families. The difference can be explained by the fact that non-Western immigrants are overrepresented in the hotel industry, restaurant industry and clean-

Box 9.1 Migration to Norway in a historical perspective

The labour migration from developing countries, e.g. Pakistan, started at the beginning of the 1960s, but has been modest since the introduction of the «immigration freeze» in 1975. From that time, family immigration from the same countries increased considerably. In recent years, the emphasis and a larger share of the family immigration has been women, e.g. from Thailand, Philippines and Russia, that enter into marriages with Norwegian men with no immigrant background. The accepting of refugees from developing countries, particularly from Vietnam and Chile initially, also started in the mid 1970s. There was a strong increase in the number of asylum seekers in the mid 1980s, including from countries such as Iran and Sri Lanka. In the 1990s, war refugees from the Balkans were predominant. A large number of these returned home, initially to Kosovo. Since the end of the 1990s, many asylum seekers from countries such as Iraq, Somalia and Afghanistan have arrived. Due to favourable lending and scholarship schemes, there has been a degree of immigration for education purposes since around 1980, including from countries in Asia and Africa.

Source: Statistics Norway

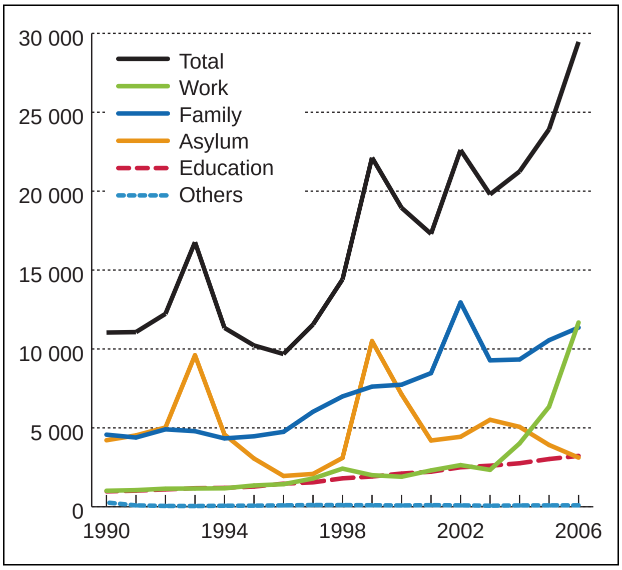


Figure 9.3 Immigration background in the Norwegian immigrant population 1990–2006

Source: Statistics Norway

24. The figures are from Statistics Norway and are available at: http://www.ssb.no/innvbef/

25. The figures are from Statistics Norway and are available at: http://www.ssb.no/innvbef/

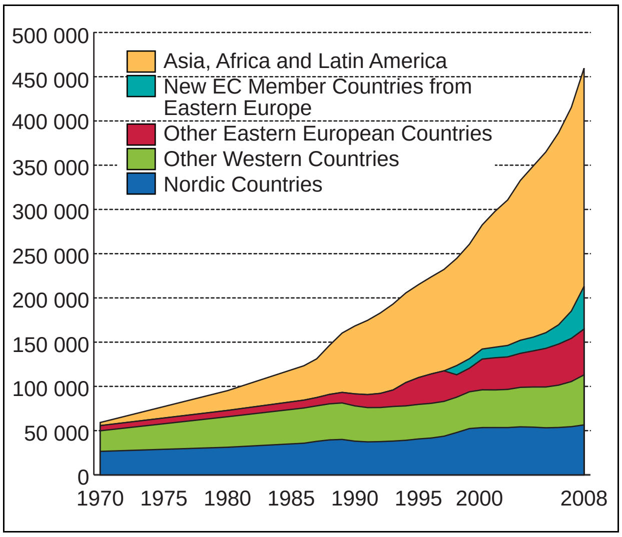


Figure 9.4 Immigrant population in Norway by country background. 1970–2008

Source: Statistics Norway

ing jobs, i.e. low paid work that does not require much education.

The specialist quota enables Norway to import specially needed labour, but the quota is only used to a limited extent (see above). As Norway does not systematically register education levels upon immigration, there is uncertainty surrounding the level of education of immigrants to Norway, and it is difficult to say whether the immigrants to Norway represent a brain drain for the country of dispatch. The figures that are available suggest that

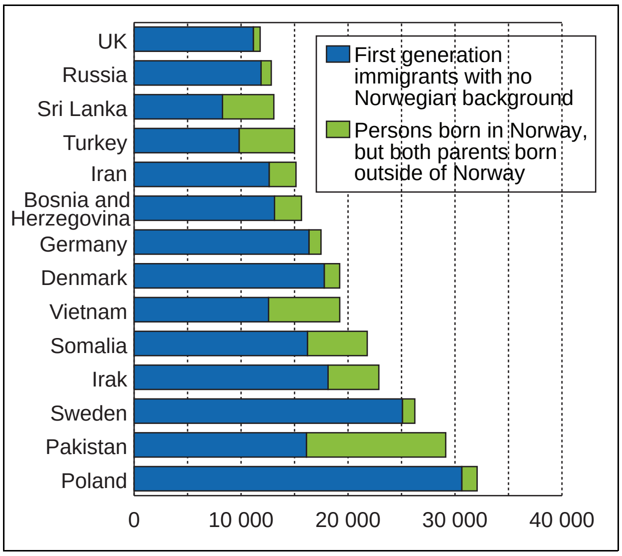


Figure 9.5 The 15 largest immigrant groups in Norway. 1 January 2007. Absolute figures

Source: Immigrant population, Statistics Norway

the level of education among the immigrants from most country groups is lower than the average in Norway for corresponding age groups. The distribution of occupational groups shows that a relatively high share of the non-Western wage-earners are found in the «other occupations» group, which mainly covers occupations with no special educational requirements. A total of 23 per cent of the non-Western immigrants are in this category compared with 6.3 per cent of wage-earners in total (with specified occupation details). On the other hand, the Western wage-earners had a correspondingly high share in academic positions of 20 per cent. For wage-earners as a whole, this share was 11.3 per cent and 6.7 per cent for non-westerners[26].

9.3.4 The need for health personnel

On a global basis, there is currently a dramatic lack of qualified health personnel. The World Health Organisation believes there is a global need for around 4.3 million more health workers. Of these, 2.4 million should be doctors, nurses and midwives. Most precarious is the lack of health personnel in the countries with the greatest health problems. Africa is in the unfortunate position of having around a quarter of the world's total burden of illness, while the continent only has 3 per cent of the world's health workers and 1 per cent of the world's total economic resources in the health service area (including aid)[27]. It is against this backdrop that Norway has committed to adopt a policy that can stem the flow of qualified health workers from poor countries[28].

In 2004, the total number of employees in the health and care sector in Norway was slightly more than 230,000. In May 2006, 2.5 per cent of all posts in the sector were vacant. In the fourth quarter of 2006, there were 12,000 foreign health workers in the health service in Norway. Figures from the Norwegian Board of Health Supervision show that the immigration to Norway by health personnel directly from Africa is small (around 5 doctors and 5 nurses per year). Immigration by authorised doctors from countries outside Sweden and Denmark (mainly East Europe) is around 300 per year. Norway's contribution to the brain drain from developing countries in this sector therefore is

26. Henriksen, Kristin (2007) Ingeniører fra India og flyktninger fra Afghanistan (Engineers from India and refugees from Afghanistan), Samfunnsspeilet 4/2007 http://www.ssb.no/samfunnsspeilet/
27. World Health Organisation (2006) World Health Report 2006: Working Together for Health
28. Report to the Storing no. 1 (2006-2007)

Table 9.3 Employment in percent by region of origin and length of stay. Share of persons between 15 and 74 that were in employment in the 4th quarter of 2006 in Norway.

Region of origin	Less than 4 years	4–6 years	7 years and more
Immigrants, total	53.4	60.3	62.7
Nordic countries	75.6	79.5	72.1
West Europe	69.4	78.1	70.3
New EEA countries	73.3	75.4	66.6
East and Central Europe	46.0	63.9	62.6
North America and Oceania	49.1	64.1	65.7
Latin America	48.2	63.7	67.0
Asia	38.5	53.4	58.1
Africa	34.5	46.6	50.7

Source: Statistics Norway

most likely to be related to the domino effect that is believed to take place when Norway recruits from a country in Europe, and this country in turn recruits from other countries that finally employ personnel from developing countries[29]. However, these are effects that are difficult to document.

As with most other European countries, Norway is facing a growing elderly population. The increase in the number of the elderly will gradually start to show in 2013, and will be particularly challenging after 2025. There will be fewer people in employment per person in need of nursing. In 2005, every fourth person was aged 55 or older, while every third person will be older than 55 in 2025. The demographic changes are expected to lead to increased demand for nursing and care services. Labour market projects for health and social welfare personnel in Norway show that there could be a lack of auxiliary nurses and care workers particularly after 2025[30].

In the short-term, however, Norway has a sufficient intake of most higher level health education studies to meet the demand for labour in the nursing and care sector. The challenge is the falling interest in advanced training[31].

Measures that regulate the migration between individual countries will have a limited effect in a globalised world. The main problem in the health personnel crisis is that there is a global deficit of health workers and that the demographic trend in many European countries and countries in the OECD is, as in Norway, showing an increasingly elderly population. It is not therefore very helpful that some countries develop a responsible policy for counteracting the loss of health resources in the South if many others enable recruitment. This highlights the need for international guidelines.

Arrangements have been made to develop compensation mechanisms for the country of dispatch that can be initiated when qualified personnel from developing countries come to rich countries such as Norway to work[32]. Calculations from the African

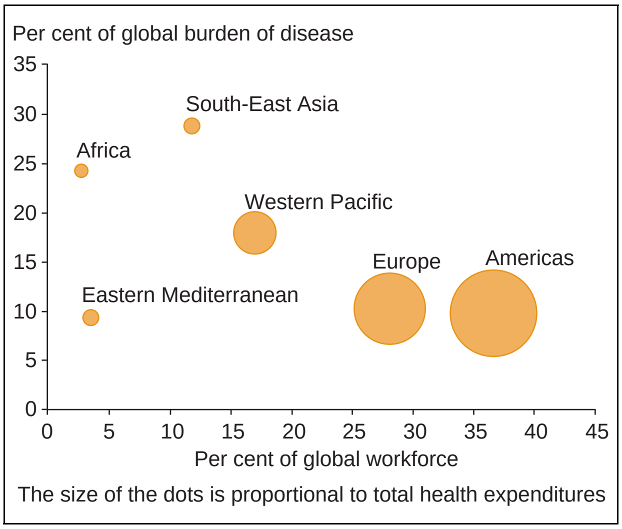


Figure 9.6 Percentage of the world's health workers in relation to the share of the world's sickness burden per WHO region

Source: WHO, 2008.

29. Ministry of Education and Research (2007): Background paper on breakfast meeting on the migration of health personnel
30. Statistics Norway: The labour market for health and social welfare personnel up to 2050. Documentation of calculations for HELSEMOD 2005. RAPP 2005/38
31. Norwegian Directorate for Health (2007): En solidarisk politikk for rekruttering av helsepersonell (A solidary policy for recruiting health personnel), Report to the Ministry of Health and Care Services

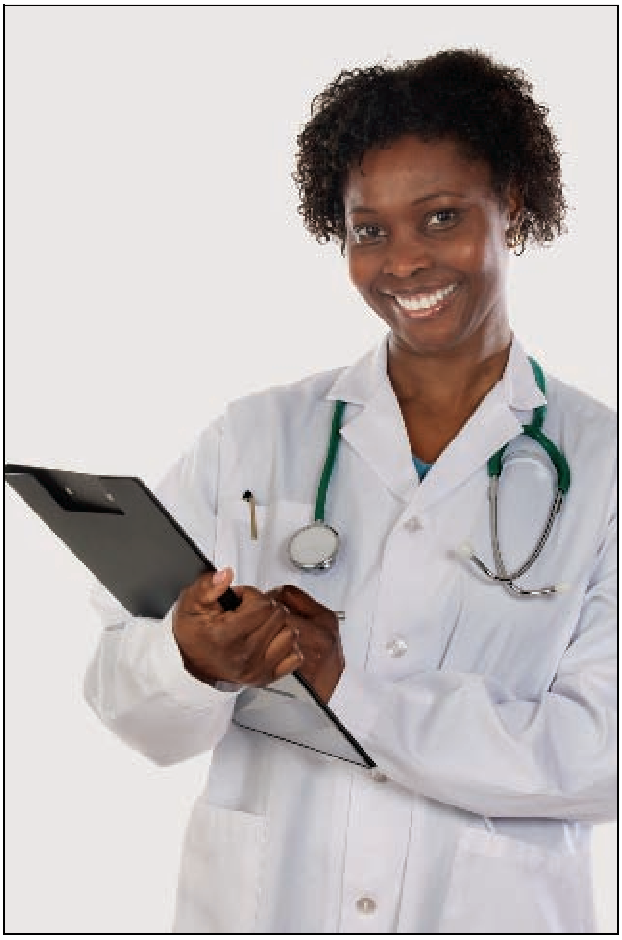


Figure 9.7 Migration of well-qualified labour creates problems in developing countries. It can also provide valuable experience for those moving and remittances to families back home.

Union show that poor countries bear an education cost of USD 500 million for the qualified health personnel that migrate to rich countries. In other words, subsidising from poor to rich countries. Various compensation schemes have been suggested: sharing tax revenues, an extra charge in addition to the visa charge that is directly transferred back to the native country, continued tax obligations in the native country, and education support that must be paid back in the event of migration. However, such compensation schemes entail major practical challenges with regard to administration and organisation. A particular challenge is how the compensation scheme can factor in that health personnel after a relatively short period of time can leave the country that has basically compensated the donating country.

9.3.5 Labour immigration to Norway

Norway receives very few labour migrants from poor countries. Of the 34,000 that immigrated to Norway to work during the period 1990–2005, 27,000 (79 per cent) were from Europe[33].

Norway has restrictive rules for labour immigration. All non-Nordic[34] citizens must have a work permit in order to work in Norway. As a main rule, citizens of non-EU countries must have their first work permit granted before arrival in the country[35] and they cannot get a work permit if there is available labour of the relevant type in the country or within the EEA/EFTA area. Nordic citizens and EEA citizens can travel to and apply for work in the country without any such prior permission. There are three different types of work permit for non-EU citizens.

The Labour Migration report divides the labour immigrants from non-EU countries into five groups. *a) Highly qualified specialists and key personnel* and *b) Skilled* – can have family reunifications and opportunities for long-term stays. *c) Newly qualified* – can have a work permit for 6 months while they are applying for work within the first two groups (and the families of students can work full time). *d) Seasonal workers* get work permits for 6 months but not the opportunity for family reunification or long-term stays. *e) Unskilled* get permits as the need dictates and this scheme is aimed at special needs for labour in Norway and special geographic regions (in the first round people from the Barents Sea Region in Russia). However, there is a small possibility for the temporary immigration of persons from developing countries as part of aid projects in order to test schemes with circular migration. A dedicated internet portal will be created containing all relevant information for labour migration and there is a wish to involve the Norwegian Foreign Service more actively in information work on work opportunities in Norway.

It will also be easier for labour immigrants to find work in Norway. Those employed in international companies and those belonging to groups a)

32. See for example Kapur, Devesh and John McHale (2005) Gives Us Your Best and Your Brightest, The Global Hunt for Talent and Its Impact on the Developing World, Center for Global Development http://www.cgdev.org/content/publications/detail/4415 and the Norwegian Directorate for Health (2007) En solidarisk politikk for rekruttering av helsepersonell (A solidary policy for recruiting health personnel), Report to the Ministry of Health and Care Services

33. The figures are from Statistics Norway and are available at: http://www.ssb.no/innvbef/
34. From Norway, Denmark, Finland, Iceland or Sweden.
35. AID (2007) Labour Migration http://www.regjeringen.no/nb/dep/aid/tema/andre/Arbeidsinnvandring.html?id=976

and b) above will be able to start working before the work permit is obtained.

From the poor developing countries' point of view, one of the most important proposals in the Labour Migration report is perhaps that rules will be drawn up in relation to the active recruitment of persons with higher education from countries that badly need these themselves. Such work is already underway in the area of health, but the brain drain problem also applies to other occupational groups such as engineers, economists and many categories of university staff. No obstacles should hinder these being able to apply for work in Norway on their own, but Norway shall not actively contribute to draining developing countries of specialists. Norway is a small labour market and the wage levels here are not particularly attractive for people with a higher education, but the signal effect of such a scheme is important. When Norway is also working actively to create international standards to counteract such active recruitment, the effect can be noticeable. However, the report does not

Box 9.2 New initiatives in Sweden

In October 2006, a committee of parliamentarians issued the report «SOU 2006:87 Work-related Migration to Sweden – recommendations and consequences». The committee recommended, amongst other, the following:

- Work-related immigration to Sweden from a third country shall continue to be regulated. The main rule should be that an offer of employment is in place and that stay and work permits should be obtained prior to arriving in Sweden.
- Temporary work permits can be given for a period of up to two years with possibility of extension for another two years, when the labour demands cannot be covered by domestic labour and labour from the EEA/EEC area. After four years, a permanent stay and work permit may be given.
- A possibility of staying three months in Sweden on order to seek employment should be given. A condition should be that there is demand for labour in Sweden within the sector in question.
- Foreign students who have completed parts of their studies or completed one semester as a guest student at a research program should be able to seek stay and work permits in Sweden.

The new Government was of the opinion that parts of the suggestions did not offer sufficient flexibility and efficiency and suggested additional changes. Among the most central recommendations is that evaluation of the labour market situation by the authorities is cancelled, something which means that the authorities do not evaluate the labour demands before a stay and work permit is given. Instead, a requirement that the position shall have been advertised within the EEA/EEC area before it can be given to a person from a third country has been imposed. The scheme with permits for seasonal workers will also be abolished. These workers shall now be able to obtain work permits within the regular system for the length of the contract. It is also suggested that rejected asylum seekers who have worked for more than six months in Sweden shall be able to apply for stay and work permits in Sweden if the person in question fulfils the regular requirements.

With these suggested changes, the Government wishes to create a demand-driven system for work-related immigration where the employers themselves shall evaluate the needs for recruitment from third countries, without the need for approvals from the authorities. Salary levels, social rights and other labour conditions shall be equal to that of workers living in Sweden. These suggestions also entail that the same framework for stay and work permits applies to all work-related immigrants, irrespective of level of skills and competence.

On March 27th, the Swedish Government put forward a «lagrådsremiss» based on these recommendations. It will then put forward a law proposition to the Parliament where the changes are proposed to be in effect from 15 December 2008.

In Sweden, work-related immigrants and their families have the right to free language lessons if they lack basic skills in the Swedish language. The courses are offered to immigrants who are registered in the population register, something one becomes if ones stay permit is for at least one year. The extent of the language course is a maximum of 525 lessons. If literacy lessons are needed, these are considered additional.

say anything about whether the rules to be created will only apply to the public sector or whether restrictions will be placed on all activity that recruitment agencies in Norway carry out abroad.

Another important proposal that is a plus for developing countries is that a study is to be carried out on how sending money home can be made easier and cheaper. This is in light of the fact that it is very expensive to send money home from Norway.

9.3.6 Immigration to Norway for education

Norway receives few students from poor countries. Seventy per cent of those who immigrated for educational purposes in the period 1990–2005 were from non-Western countries, but it is particularly students from China, Russia, the Philippines and Poland that received education permits[36].

There are few researchers from developing countries in permanent scientific posts in Norway, but a relatively large share of the research recruits come from countries outside the OECD area. Half of the foreign researchers at universities, university colleges and research institutions come from OECD countries outside the Nordic region. China, Russia and Iran are the most important countries of origin for researchers with non-Western backgrounds. While 90 per cent of the foreign researchers in permanent scientific posts have backgrounds from OECD countries, 40 per cent of foreign research recruits are from countries outside the OECD area.

The compressed Norwegian wage profile makes it more attractive to be a researcher in training posts than a senior researcher in Norway. The latter can achieve considerably higher salaries in other countries. The Norwegian doctorate scheme is good compared with other OECD countries, and Norwegian doctorate stipends that are announced internationally attract a high number of applications. However, the Norwegian salary system leads to a risk that foreign research fellows «leak» to institutions in other countries when they are ready to go over to higher scientific posts.

Each year, the quota scheme enables 1,100 students from developing countries and Eastern Europe to study in Norway, mainly at MSc and doctorate level. The expressed goal of the support scheme is to give the students the relevant qualifications to benefit their native countries when they return after completing their studies. Students that do not return to their native country have to pay back the stipend as a student loan. Nevertheless, many quota students choose to stay in Norway or travel to another country instead of their native country after completing their studies.

Since the academic year 2006/07, a change in legislation has made it possible for international students to work in addition to studying. The students are now given a general permit to work part-time (max. 20 hours per week) together with the residence permit.

Table 9.4 Persons that immigrate to Norway to study. 1990–2005. Ten of the most common country backgrounds

Germany	2 427
China	1 885
Russia	1 654
USA	1 551
Philippines	1 450
Poland	1 013
Lithuania	803
Ghana	768
Latvia	676
Romania	633

Source: Statistics Norway

9.3.7 Refugee flows to Norway

At the start of 2007, 125,100 persons with a refugee background lived in Norway, which corresponds to 2.7 per cent of the population as a whole. In ten years, the number of persons with a refugee background has almost doubled. In 1997, refugees from the Balkans, Vietnam and Iran made up the largest groups in Norway, while ten years later most refugees are from Iraq, Somalia and Afghanistan. In 2005, Norway received 5,400 asylum seekers, of which around 10 per cent were granted asylum. In addition, 35 per cent of the asylum seekers were granted residence permits on humanitarian grounds. Each year, Norway receives a specific number of quota refugees. In 2007, the figure was 1,200. In 2007, in collaboration with the UN High Commissioner for Refugees, Norway also accepted 1,200 refugees from countries where they had first applied for asylum, for resettlement here. The Norwegian Directorate of Immigration assesses and grants such permits and takes both security and integration aspects into account. The Directorate also prioritises people with a background in health

36. The figures are from Statistics Norway and are available at: http://www.ssb.no/innvbef/ According to Statistics Norway Poland is defined as a non-western country.

disciplines due to the need for labour in this sector. As this applies to persons that have already been banished from their native country, it is not considered to be contrary to the goal of avoiding active recruitment of health personnel from developing countries. There is a certain competition with other OECD countries for this labour.

9.3.8 Irregular migration

There are no accurate figures on the scope of irregular migration to Norway. In 2005, only 7 per cent of asylum seekers in Norway had legal travel documents when they applied for asylum, and 90 per cent applied for asylum at police stations within the country, not at the border[37]. There are no programmes in Norway that make it possible for illegal immigrants to obtain a different status. Human smuggling to prostitution and slave work both of women and children are also found, however, in Norway, and special measures have been implemented for such victims[38]. Among other things, they can obtain a special residence permit for up to six months – a reflection period where they will get practical follow-up and help – when they have no other basis for legal residence. In 2007, 31 persons were granted a reflection period of six months, which is an extension of the reflection period in relation to previously.

9.3.9 Situation for the asylum seekers

Many asylum seekers stay for long periods in Norwegian reception facilities. Those who are unable to master the language, or have no relevant work experience often have problems in securing a footing and job opportunities. Many perceive a long-term asylum stay as depressing and destructive, and are poorly prepared for integrating in Norway or for any voluntary or forced returns. For the final group, not managing to secure an income or the skills to support their family is also problematic. Experiences in Denmark are relevant here. Through a voluntary organisation, asylum seekers are offered short vocational courses, Want2work, and/or job experience placements. The experiences have so far been positive both with regard to their time in Denmark and in relation to finding work upon their return. The Policy Coherence Commission does not, however, give any consideration to any other aspects of Danish immigration and asylum policy.

9.3.10 Integration policy

In October 2006, the Government presented a plan of action for the integration and inclusion of the immigrant population. Efforts to combat racism and discrimination are a running theme in the plan, which has the following four main focus areas: work, upbringing, education and language, equality and participation.

The plan of action details the focus and measures to help find individuals work. The local authorities are named as the key players in the settlement and integration of newly-arrived immigrants and the plan of action states that the Government will strengthen the integration surplus of local authorities that settle refugees and their families.

An important initiative that the Government proposes is to grant NOK 42.6 million to Norwegian language teaching for asylum seekers that are waiting to have their application processed. Asylum seekers that stay in ordinary reception facilities should receive up to 250 hours of Norwegian language teaching.

The immigrant population is overrepresented among persons with a continual low income. The effort must be aimed at labour migrants as well as asylum seekers and must therefore also be regarded in conjunction with the Government's plan of action to combat poverty.

In connection with the launch of the plan of action, the Ministry of Labour and Social Inclusion drew up an evaluation of the Norwegian integration policy with the emphasis on anti-discrimination. The report was prepared by the Migration Policy Group and was presented in November 2007. The results from the evaluation are built on the results from the Migrant Integration Policy Index (MIPEX) based on 140 indicators. Norway is in eighth place on this index, out of 28 countries; the 25 EU countries plus Canada, Norway and Switzerland. Norway received a high score for giving immigrants access to the labour market, on human family reunification policy, on its long-term approach to stays and with regard to political participation. We are much weaker when it comes to anti-discrimination and access to citizenship for instance. It is diffi-

37. AID (2006): International Migration 2005-2006, SOPEMI report for Norway, http://www.regjeringen.no/upload/kilde/rap/2007/0002/ddd/pdfv/304201-r2007_migration_sopemi.pdf
38. AID and Ministry of Foreign Affairs (2006): Migrasjon og utvikling – bedre sammenheng og samordning (Migration and development – better correlation and coordination). Report from a cross departmental working group. http://www.regjeringen.no/nb/dep/ud/dok/rapporter_planer/rapporter/2006/Migrasjon-og-utvikling--bedre-sammenheng-og-samordning.html?id=278523

cult to become a Norwegian citizen and Norway does not permit double citizenship[39].

The Government states in the Labour Migration Report that it is working on introducing Norwegian language teaching for labour migrants, with a start package that includes information on rights and obligations, by improving the schemes for approving foreign higher education and by continuing NGO's work aimed at immigrants.

9.3.11 Remittances from Norway

A study of remittances from Norway highlighted that there is no accurate information on the size of the amounts that immigrants in Norway transfer to their native country[40]. The transfers contribution to reducing poverty and facilitating growth is influenced by how the money is transferred and how much money the recipient is left with. The costs of transferring NOK 1,000 from Norway vary between 5 and 25 per cent. Research shows that remittances have the best development effect if they are sent via financial institutions such as banks or micro credit organisations where credit can also be created for parties other than the recipient. However, the banking industry is often poorly structured in many developing countries and there is often great uncertainty linked to time and costs when using the services in this sector. A remittance to Pakistan can, for instance, take between 11 and 23 days, and the transfer often has hidden costs. It is therefore uncertain how much actually reaches the recipients.

Compared to Europe, Norway has a relatively strong set of rules for remittances. This means that there are few alternative remittance services, which means a lack of competition and high price. Informal transfer services ('hawala' is a commonly used general term) are not legal in Norway. For remittances to countries that do not have an effective banking industry or offices for remittances, however, hawala can be the only option for sending money. Hawala operators are legal in the UK, Sweden and Denmark, but illegal in Spain, the Netherlands and Norway. Some of the hawala providers that operate in the irregular market in Norway are publicly registered companies in countries with less restrictive sets of rules.

Somalia is one of the countries that is most dependent on remittances. There is currently no legal way of transferring money to Somalia. The possibilities for sending money to Iraq are also very limited, and to the Kurdish areas in the north the hawala services are the only option at present. According to the Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime, immigrants from Afghanistan, Iran and Sri Lanka use such companies. (Ref. Carling et al 2007). The lack of legal remittance services can lead to reduced remittances and thereby less poverty reduction in the country of origin since the migrants risk criminalisation and because the transfer costs will probably be higher.

The stringent set of rules is motivated by the desire to counteract tax evasion, money laundering and the financing of terrorism. Since hawala services are illegal, and therefore not supervised, there is no incentive to implement routines that will make it easier to trace remittances. Some of the established international hawala operators, however, have such routines in place. This information does not benefit the Norwegian authorities as long as the hawala operators are illegal in Norway. Statements from the police in Norway and the financial authorities indicate that they realise the lack of transparency that the prohibition entails is a major problem, and finding solutions to legalise the schemes is desirable.

Considerations of the Commission

Norwegian policy has a clear potential for improvement with regard to exploiting synergies between the labour and immigrant policy and the development policy's goal of reducing poverty. Migration is the area that gives Norway the second lowest score (after trade) in the Commitment to Development Index (CDI). In 2007, Norway scored 4.9 points on the sub-index for migration and was in 11th place on the index. The criticism aimed at Norway is that the increase in the number of unskilled workers to the country since 1990 is small, and that the share of foreign students from developing countries is small. Norway is commended for giving students good economic conditions and for covering large amounts of refugees' expenses. The CDI gives a higher score to countries for receiving unskilled labour than for qualified labour.

The Policy Coherence Commission finds that for unskilled labour from countries outside the EEA, the opportunities for labour migration to Norway are extremely limited under the current set of rules. The Government has proposed simplifying the rules for recruiting employees from countries both within and outside the EEA area. However,

39. http://www.migpolgroup.com/multiattachments/3914/DocumentName/AntiDis_Norway_Nov07.pdf
40. Carling et al (2007) Legal, Rapid and reasonably Priced? A Survey of Remittance Services in Norway, PRIO http://www.norad.no/default.asp?V_ITEM_ID=8489

the scheme only applies to well-qualified specialists, key personnel, skilled workers and employees in international companies. The Commission believes that more should be done to facilitate the recruitment of unskilled labour since this can give a positive effect for development in the country of dispatch. Studies show that unskilled workers also send more money home than those well qualified. Any form of migration entails major challenges. It must be a prerequisite that labour migrants, whilst employed in Norway, have the same employment rights as Norwegian workers.

Commission members Audun Lysbakken and Anne K. Grimsrud believe that in the migration policy, the Norwegian authorities must balance various considerations. The immigration of unskilled labour can be positive both for the countries that the migrants originally come from and for Norway. These members take a very positive view of immigration, and is critical to the discrimination of migrants that the EEA agreement imposes on Norway. However, it is vital to prevent increased migration leading to social dumping and the development of a new and ethnic-based lower class in Norway. Unregulated competition for the poorest paid jobs in society is therefore not a positive thing, neither for society nor for people in need of work. A shift in the power balance between employers and employees will have major consequences. Immigration cannot therefore be regulated based on the employers' wishes alone. This makes it necessary to set restrictions on the opportunity for immigration for unskilled workers. The immigration of unskilled labour must therefore be regulated according to the situation in the labour market, and in a collaboration between the parties in industry and the authorities.

Commission member Kristian Norheim in principle sees free movement of goods, services, capital and people over country borders as a goal. Unfortunately there are several reasons why free immigration is not a responsible policy. One such reason is the generous incentives for staying unemployed offered by the Norwegian welfare state. Opening up for free immigration of unskilled workers that are most needed in low wage positions, and following up by allowing family reunion, within a generous welfare system where demands and duties are not predominant, would make the situation untenable. The potential for integration should also be considered when borders are being opened. The belief that Norway can reduce poverty much by opening its borders for free immigration of both skilled and unskilled labour is naïve. If Norwegian industries are in great need of labour immigration from third countries, one should consider ways and means for employers to take on more of the economic and welfare responsibilities this entails. A Swiss model or a North Sea model should also be considered. Norway can contribute best to poverty reduction in developing countries by supporting political and economic reforms, a freer world trade regime and other measures that could create growth and employment for the poor. This would affect the many and not only the few who are lucky enough to get away.

The Commision notes that since Norway does not systematically register the level of education of immigrants, there is very little accurate information on the level of education of immigrants to Norway, and it is difficult to say whether they represent a brain drain for the country of dispatch. On a global basis, there is currently a substantial lack of qualified health personnel. Recruiting health personnel directly from Africa is restricted, but since Norway imports health personnel from other European countries, and since these in turn can import personnel from developing countries, a domino effect may be in force that is difficult to document. The Commission registers that in the Report to the Storting no. 18 (2007–2008) on Labour Migration, the Government highlights the need for national and international rules that prevent key personnel from poor countries being actively recruited to rich countries, and that pending international rules the Government will draw up national guidelines. The Commission supports such an approach.

Many migrants with no official documents live in disgraceful conditions and are exploited by the labour market and housing market, among others. Employers in many countries exploit such labour, which is both cheap, easily replaced and can easily be controlled by threats to make their stay known to the authorities. It is estimated currently to be 5 million labour migrants in Europe with no official documents or legal residence. Irregular migration represents a challenge that needs to be met at various levels. Persons with no official documents do not currently have the right to health services apart from emergency treatment. In practice, this means for example that pregnant women are not entitled to examinations, and that children do not have a right to see the health visitor. The Commission believes it is important to improve the conditions for migrants with no official documents.

The Commission would like to highlight the importance of Norway adopting a human and solidaristic refugee and asylum policy. Norway has a clear moral obligation to take its share of the responsibility for those in need of protection. Asylum seekers that stay in Norwegian reception facilities for a long time often perceive their situation to be depressing and destructive and as poor preparation for integrating in Norway or for a voluntary or forced return. Experiences from Denmark show that language studies, short work preparation courses and work experience placements result in better adaptation both in Denmark and after their return home where relevant.

Norway will have a need for more labour in the coming years, but has untapped labour resources in immigrants that have already arrived in the country. There is a lack of integration and discrimination in the labour market. Not utilising the labour resources in the immigrant population leads to both lost labour achievements for Norway and lost remittances to the immigrants' country of origin.

Commission member Kristian Norheim does not support the views of the Commission expressed in the previous 4 paragraphs.

Remittances from migrants have a clear positive effect on poverty, and also have a positive connection to other development goals such as children's education and health. There is currently no legal way to send remittances to Somalia from Norway. Remittances have a clear positive effect on poverty in the recipient countries. Norway has a very restrictive set of rules for remittances compared with other countries. For example, some hawala operators that are legal in the UK, Sweden and Denmark are illegal in Norway. Some of the hawala operators that operate in the irregular market in Norway are publicly registered companies in countries with less restrictive sets of rules. Norway's stringent regulations for remittances, which lead to little competition among the suppliers, relatively high transfer prices and the total absence of legal remittance alternatives to some countries, are regarded as having a directly negative effect on poverty development. The Commission believes it is important that remittances to developing countries are made simpler and cheaper.

9.4 Proposal for migration policy initiatives

9.4.1 Labour immigration

Initiative 1: With the exception of Anne K. Grimsrud, Audun Lysbakken and Kristian Norheim, the Commission recommends introducing a scheme where unskilled labour from outside the EEA area is treated equally to skilled labour. Anyone who finds work in a Norwegian company should get a work permit regardless of whether they are unskilled or well qualified labour migrants. No restrictions should be set on the volume of labour immigration that requires the relevant party to have an offer of employment in Norway. The obligations that Norway has in relation to the EEA must be met and the regulations must be designed in close collaboration with the parties in industry.

– Requirements must be set for conditions of employment and maintenance through own funds. A family of labour immigrants should be able to apply for a residence permit in the family reunification system on a par with the current schemes for skilled labour.
– Labour immigrants are given the right to free language studies if they lack basic skills in Norwegian. The Norwegian Labour Inspection Authority should be strengthened in order to ensure that salaries, social rights and other working conditions are on a par with those for employees domiciled in Norway.

Committee members Audun Lysbakken and Anne K. Grimsrud recommend enabling the immigration of unskilled workers from outside the EEA area through quotas that are determined each year in collaboration with the parties in industry and the authorities.

Initiative 2: With the exception of Kristian Norheim, the Commission recommends that Norway tries to a greater extent to comply with developing countries' proposal for the liberalisation of the movement of labour in the GATS negotiations. Norway should take the initiative to study how labour migrants can be treated more equally regardless of their country of origin.

Initiative 3: Arrangements should be made to stimulate and facilitate those who wish to contribute with their experience and expertise in their native country in different ways. Initiatives that should be considered are:

– Loan schemes with greater risk-taking for migrants that wish to start a company in their native country. It should be possible to apply for loans in Norway, with the disbursement of funds taking place in the native country.

9.4.2 Initiatives to limit brain drain

The most effective initiative to combat brain drain is improving job opportunities in the native country. Through measures for strengthening sectors with high volumes of migration such as health and education, it will be possible to help reduce the incentives to emigrate. This will primarily be done through development aid funds and is therefore not covered fully in this report.

Initiative 4: The Commission supports Norway undertaking efforts to ensure that international ethical guidelines are developed for recruiting health personnel and other skilled key workers. Rich countries should not actively recruit skilled key personnel from poor countries. The individual's right to apply for work in another country should, however, not be restricted.

Initiative 5: The Commission believes it is important that pending international guidelines Norway should devise national guidelines for the responsible recruitment of skilled workers where measures such as restricting the recruitment of qualified personnel, qualifying unqualified personnel in Norway and developing compensation schemes are emphasised.

Commission member Kristian Norheim does not support the views and initiatives 4 and 5 under paragraph 9.4.2.

9.4.3 A simplified set of rules for remittances

Initiative 6: The Commission attaches importance to remittances to developing countries being simpler and cheaper, and the Government actively working towards this. It is also recommended that the set of rules is amended in order to make it possible to transfer money legally to Somalia and northern Iraq. This will also contribute to increased competition between remittance operators.

9.4.4 Irregular migration and refugee policy

Initiative 7: The Commission recommends a more progressive approach in order to improve the conditions for migrants with no official documents both in Norway and internationally. Initiatives that are considered to be important are:

- Entitling paperless migrants in Norway to basic health services and legalising humanitarian aid to paperless migrants.
- Establishing legalisation schemes for long-term paperless migrants through legislation or regulations. Paperless migrants that have stayed in the country for many years must be given the right to have their cases reassessed, with the emphasis being on actual period of residence. This must especially apply to children. The authorities should consider the use of amnesty for paperless migrants. Amnesties will not be a permanent scheme, not to be speculated in.
- Victims of human trafficking that want and need to stay in Norway must be granted a residence permit. Obtaining a residence permit should not be conditional on collaborating with the police. The importance of fighting the people organising human trafficking must not be at the expense of the victims' rights.

Initiative 8: The Commission recommends that consideration is given to brief job training for asylum seekers as soon as they arrive in Norway. The purpose of this is to facilitate integration and job searching in Norway and to give the asylum seekers job skills that both they and their native country will benefit from upon their voluntary or forced return.

- It must be made easier for asylum seekers that are waiting on their residence application being processed to obtain a work permit during the wait.

Commission member Kristian Norheim does not support initiatives 7 and 8.

Chapter 10
Peace, security and defence policy

10.1 Conflict, peace and poverty

Two thirds of Africa's poor are to be found in countries that have recently experienced or are in the middle of a war or conflict,[1] and 90 per cent of armed conflicts in 2005 took place in low and lower-middle income countries.[2] Armed conflicts lead to major financial losses for the countries and populations that are affected. The African continent alone has incurred a financial loss in excess of NOK 97 billion. Preventing conflicts or reducing the level of conflict is in itself a key contribution to reducing poverty.

While armed conflicts previously led to large military losses, the number killed as a direct result of acts of war is nowadays considerably lower. The civilian population now generally bears the greatest burdens, both during and after violent conflicts, as a direct and indirect result of violent actions. Women are particularly exposed. Violence against women and to a large extent sexually motivated attacks, are used as a weapon in wars and conflicts. Women are rarely present when peace agreements are negotiated, few women take part in civil and military peace operations and women's human rights are poorly protected in conflict and crisis areas.[3]

Successive Norwegian Governments have furthered a policy with emphasis on Norway's international peace work. This has resulted in a conscious focus on preventing, reducing or resolving conflicts and reducing the vulnerability of exposed groups. This priority is substantiated based on an acknowledgement that security is fundamental to human and state development.

The purpose of such prioritising is twofold. First, there is a wish to save lives, alleviate suffering and secure human dignity. Second, it is important to contribute towards peace and reconciliation due to security policy considerations. One result of globalisation is that conflicts throughout the world to an increasing extent might hold direct consequences for Norway. It can therefore be argued that initiatives to further peace and reconciliation in distant countries can contribute to stability, security and the protection of Norwegian interests. However, such initiatives might place the interests of Norway and Norway's allies' in conflict with considerations towards development, stability and security in other countries. This makes it necessary to constantly measure the coherence in Norway's international engagement, to determine the interests it is motivated by, and identify which potential conflicts of interest that must be weighed up against each other.

Norway has a long tradition of contributing to international military and civil operations in areas hit by war and conflict, with military forces since 1947 and with personell from the police and justice sector since 1989.

Norway is also a significant humanitarian contributor, and a number of our relief and development projects are carried out in countries that in different ways are exposed to armed conflict and instability. Norway and Norwegian organisations have assumed key roles as negotiators and facilitators of different peace initiatives, including in the Middle East, Colombia and Sri Lanka. The statistics of international and Norwegian development aid in chapter 3 illustrates the extent to which development assistance and emergency relief have become a political instrument, and how countries where Norway is involvement in peace processes and international military operations are prioritised financially.

Norway's participation in international military operations and various peace initiatives has generally been founded on a clear political majority in the Storting. The overarching Norwegian security and defence policy goals are set, but the content of the policy might change as framework conditions, challenges and the security threat profile change. Three factors are particularly important;

1. Collier, P. (2007). The Bottom Billion: Why the poorest countries are failing and what can be done about it New York, Oxford University Press.
2. The World Bank/ Human Security Report Project (2008). Mini Atlas of Human Security. Washington D.C., The World Bank/ Human Security Report Project.
3. UNDP (2007). Donor Proposal for the Eight Fold Agenda, New York, United Nation Development Program

- Legitimacy (political and moral) and legality linked to participation in international military operations.
- Cooperation and collaboration between civilian and military actors in international military operations.
- Measurement of results of our peace initiatives.

Point number two is particularly important for emphasising the planning and execution of multidimensional and integrated missions.

The main question in this chapter is therefore whether it can be documented that Norwegian civil and military efforts internationally have contributed to poverty reduction or at least not undermining the poverty reduction goal. The second most important question is whether there can be any conflict of interest between respectively Norwegian security policy and development policy considerations.

Within this broad policy area, the Commission has chosen to focus on coherence challenges regarding harmonisation within peace and reconciliation work, arms and arms exports and our international military missions. These areas provide and opportunity to discuss some central areas with possibly conflicting interests given Norway's prominent international peace role, the fact that Norway is the world's largest arms exporter in relation to number of population, as well as the Norwegian emphasis on strengthening the UN's military peacekeeping role while contributing limited number of Norwegian armed forces to these. There are other areas with major conflicts of interests but the Commission has chosen to focus our suggested initiatives towards the aforementioned topics.

10.2 A UN-led global order

People's ability to live in safety is fundamental to peace and freedom. Out of the six threat categories the UN's High-Level Panel in 2004 called upon the world to show concern for in the coming decades are five security-related: war, violence, attacks, the nuclear threat, terrorism and organised violence.[4] Armed conflicts lead to human suffering, inhibit development and results in major financial losses for the affected countries and populations. Establishment of peace or reduction of the conflict level can thus be a key factor in reducing poverty.

In 2007, 13 major conflicts were registered in 13 areas, where Africa and Asia dominate.[5] According to some estimates, two thirds of Africa's population live in countries that recently have been trough or still are in a state of civil war. Democratic societies are least vulnerable to internal and armed conflicts, although not necessarily renouncing the use of military force in other countries. Autocracies suppress regime criticism and revolts, and have therefore few armed conflicts. By contrast, anocracies, which are neither fully democratic nor fully authoritarian, have the majority of armed conflicts. Africa south of the Sahara, the Middle East and central and southern Africa have a high share of anocracies.

The optimism following the end of the cold war as for the the UN Security Council's ability to intervene in conflicts was short lived. We are witnessing the development of a multipolar world that can potentially impair the UN's efficiency to intervene in conflicts or make the mandates for UN interventions less robust. Growing differences at a global level, increased competition for natural and energy resources, a possible resumption of nuclear arms-related programmes, the spreading of technology and material to product weapons of mass destruction and a greater degree of privatisation of security in conflicts are all examples of conditions that impair the UN's role in conflict prevention and management.

Despite this development, the UN is in a unique position to facilitate peace, development and security on behalf of the global community. Norway is a significant financial contributor to the UN, and was the 6th and 7th largest contributor in 2006 and 2007 respectively.

International collaboration is a prerequisite for peaceful international development, and not least for a necessary strengthening of international law. Norway has sought to anchor its international engagement through an active membership role in international organisations, and by maintaining a broad international engagement to influence development of both policy and practice within the peace and security sector.

Regional organisations such as the African Union (AU) hold a major potential with regard to regional crisis handling. NATO remains a cornerstone in Norwegian foreign, security and defence policies. The development of a common European security and defence policy (ESDP) influences the

4. The UN's High-Level Panel (2004). A More Secured World: Our Shared Responsibility. New York, United Nations.

5. SIPRI (2008). SIPRI Yearbook 2008: Armaments, Disarmaments and International Security. Stockholm, Stockholm International Peace Research Institute

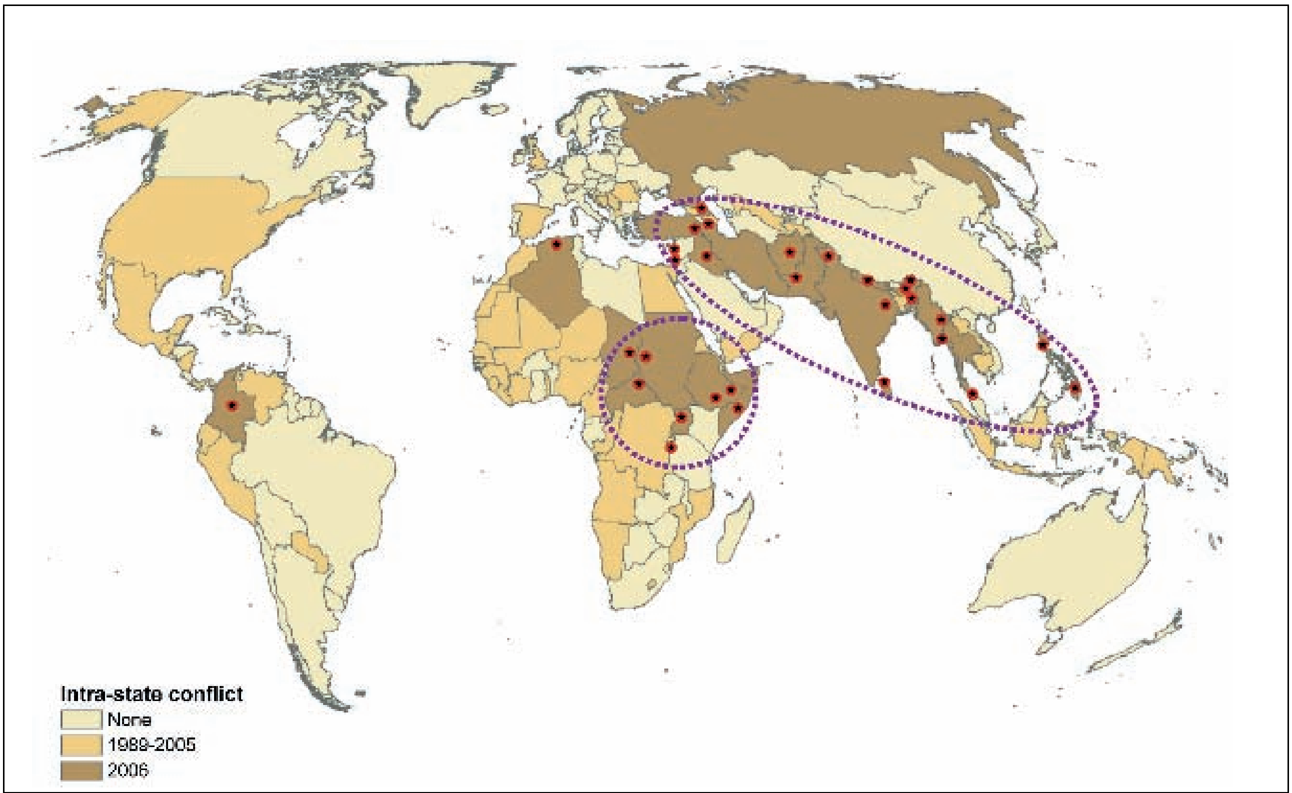


Figure 10.1 Map of armed conflicts in 2006

The map shows the geographic distribution of conflicts in 2006 (red symbols in brown countries) and countries with conflicts concerning territory during the period 1989–2005 (beige countries).

Source: The International Peace Research Institute, Oslo, PRIO, Centre for the Study of Civil War, CSCW. Press release dated 10.9.07 «The world is better than its reputation».

priorities made in Norwegian security policy and on European military collaboration.

There is in addition an extensive collaboration between «like-minded countries», researchers and non-governmental organisations. This form of networking is time-consuming and resource-intensive, but the process leading to the prohibition of the use of landmines and cluster ammunition is an example of the significance and influence of non-governmental cooperation.

10.2.1 Security policy development features

A number of factors characterise the development of the security policy framework, including a strengthened position for Russia and China as well as regional actors. The USA remain the dominating military power, but shows signs of a weakened economic position.

The ending of the cold war changed the international conflict profile. The main tendency is a change from war between states to an increasing number of internal conflicts, a mainly peaceful Europe while the majority of conflicts are localised in Asia and Africa. The use of terror as a method is a feature of the current conflict profile. Such a use is nothing new, but protection against terrorism is central to in many countries' security policy since the terrorist attacks in the USA and European countries at the start of this decade. The wars in Iraq and Afghanistan, and the growing tension in the Middle East, are in the same way pivotal in the international security policy picture. The USA's invasion of Iraq has led to a diminished international confidence in a multilateral approach to security.

The increasing demand for energy sources and the shortage of natural resources constitute a potential source of conflict. Secure energy accessibility, primarily petroleum and gas, are important for all countries and the significance of energy security will increase in the years to come. This includes securing infrastructure connected to energy production and delivery.

Another factor that increasingly affects security, stability and conflict risk is the climate changes. Those living in the largest poverty, in underdeveloped or unstable states with undemocratic and corrupt Governments are in principle the hardest hit.[6] A strong correlation has also been demonstrated between political stability and a country's ability to prevent ecological disasters or damage.[7]

10.2.2 Norwegian security policy

One of the fundamental aims of Norwegian security policy is to protect Norwegian interests through securing Norwegian territorial integrity, sovereignty and political freedom to manoeuvre. The extended security concept includes diplomatic, economic, social, political and environmental instruments. The defence policy is the part of the security policy that deals with the use of military instruments.

The overarching goals for Norwegian security policy are:[8]

- To prevent war and the development of various threats to Norwegian and the collective security;
- To contribute to peace, stability and the further development of a UN-led international legal system;
- To protect Norwegian sovereignty, Norwegian rights and interests and protect Norwegian freedom to manoeuvre with regard to political, military and other pressure;
- To defend Norway and NATO from strikes and attacks, together with our allies;
- To protect society from strikes and attacks from governmental and non-government actors

The linkage between the security policy and the defence policy is formulated in the defence policy goals. The goal most relevant to highlight here is that, within its area of responsibility and through collaborations with other countries' authorities where appropriate, the Norwegian Armed Forces shall:

- Together with our allies, through participation in multinational peace operations and international defence collaborations, contribute to peace, stability, enforcement of international law and respect for human rights, and guard against the use of power by governmental and non-government actors against Norway and NATO.

The global challenges and threats are more diffusive than previously, and are characterised by sliding transitions between the national and the international, and between peace, crisis, armed conflict and war. The risk assessment therefore dictates that Norwegian security is best protected by contributing to peace, stability and a favourable international development, and in this way reduce the risk of crises, spread of conflict, armed conflict and war.

10.2.3 Human security

The extended security concept entails a far broader approach to security, and an understanding that military instruments alone cannot create lasting peace and stability.

As already discussed, many of today's conflicts are intrastate and the acts of violence are often carried out by different types of armed groups, and affects in particular civilians. In recent years, we have witnessed in a number of the world's conflict zones military strategies based on the use of air bombardment and cluster ammunition by some states, while improvised explosive devices are used by their adversaries. A growing number of civilians are being killed by organised groups in urban areas, often caused by states lacking ability to provide security for their citizens.[9] No statistics show the vulnerability towards being killed in a war or conflict in relation to gender or age, despite the UN Security Council's resolution 1325. This resolution aims to increase women's participation in conflict resolution and in efforts aimed at securing lasting peace, and to strengthen protection of women's rights in conflict areas. Norway has developed a «Plan of action for women's rights and equality in the development work, 2007–2009».[10]

Two UN initiatives are pivotal to the efforts aimed at improving the human security; «Human Security» and «Responsibility to Protect». Fundamental to the reasoning is that the international

6. Dan Smith and Janani Vivekananda (2007). A Climate of Conflict: The Links between Climate Change, Peace and War. London, International Alert.
7. Foreign Policy and the Fund for Peace. (2007). Failed States Index 2007, http://www.fundforpeace.org/web/index.php?option=com_content&task=view&id=99&Itemid=140.
8. Proposition to the Storting no. 48 (2007-2008): Et forsvar til vern om Norges sikkerhet, interesser og verdier (A defence to protect Norway's security, interests and values).
9. Humansecurity-cities.org (2007). Human Security for an Urban Century: Local Challenges, Global Perspectives. Ottawa, Human Security Research and Outreach Program of Foreign Affairs and International Trade Canada and Canadian Consortium on Human Security.
10. Ministry of Foreign Affairs (2007). Handlingsplan for Kvinners Rettigheter og Likestilling i Utviklingsarbeidet (Plan of action for women's rights and equality in the development work), 2007 - 2009.

community must take responsibility for protecting civilians from mass murder, war crimes, ethnic cleansing and injustices against humanity, in cases where the national state has failed its responsibility. Both concepts are based on the security's indivisibility. Everyone has a right to security without differentiating between degrees of vulnerability.

Human security means protecting people from critical and continuous threats and situations, by building on their strengths and aspirations. This included establishing systems that provide people a basis for survival, dignity and subsistence.

Human security complements state security, facilitates human development and strengthens human rights. It complements state security by being human-centred and addresses insecurity that has not been considered a threat to states.

Responsibility to protect (R2P) populations from mass murder, ethnic cleansing, war crimes and crimes against humanity are international governmental obligations aimed at preventing and reacting to serious crises, regardless of where they occur. In 2005, agreement was reached within a UN framework that states have the main responsibility for protecting their own population while the international community has a responsibility for initiating initiatives when these Governments do not make efforts to protect those most vulnerable.

The concepts have been attacked from two sides. On the one hand, questions have been raised concerning whether the concepts have been too watered down to be relevant and to prevent major injustices.[11] On the other hand, other quarters have expressed concern that these concepts might provide the UN Security Council and its members with a too extensive power in overruling states' sovereignty. Nevertheless, the concepts are generally accepted and incorporated into Norway's goals for securing the life of individual human beings.

Considerations of the Commission

The Commission with the exception of Kristian Norheim find that the UN is the world's most important organisation for preventing and reducing conflicts.

Norway should in particular support the UN's reform efforts with a view to making the organisation more effective and improving the utilisation of its resources. It is important for the legitimacy of the UN that the organisation is perceived as an organisation for all countries. Within the security field, it is particularly important to support the efforts aimed at improving command, control and management structure to enable the UN to lead complex international operations. In relation to peace and reconciliation, further development of the Peace-Building Commission is a crucial focus area.

Figure 10.2 The United Nations plays an important part in co-ordinating interaction between countries.

In order to ensure a more secure economy for the UN, the Commission with the exception of Kristian Norheim is of the opinion that Norway must contribute to arrangements that ensure that the member countries meet their economic obligations towards the organisation. At the same time, Norway must work towards the UN building up own sources of income.

As a small country, Norway has a particular need for international rules that prevent arbitrary use of power and which protect the interests of weak nations and weak parties in the global community. Norway must therefore aim to develop and secure such rules.

Norwegian foreign policy must defend and further develop rights for states and individuals as laid down in the UN pact, the Geneva Convention and the Declaration on Human Rights.

The Commission with the exception of Kristian Norheim is of the opinion that it is through the UN that the world can start to move towards a collective security system, which to a large degree can be governed by the consideration to development, human rights and stability, and to a lesser extent by individual countries' strategic interests. The Commission majority is therefore of the opinion that in the distribution of Norway's scarce military resources, Norway needs to strengthen UN's capacity by prioritising resources to UN-led operations.

11. Bellamy, A. J. (2006). "Whither the Responsibility to Protect? Humanitarian Interventions and the 2005 World Summit " Ethics & International Affairs 20(2 (Summer 2006))

Commission member Julie Christiansen is of the opinion that it would not be natural in the security area to detach the use of Norwegian military forces abroad from Norwegian security interests. This implies that in today's situation it is difficult to have as a base for all decisions that UN led operations should have priority. There is not necessarily any contradiction between UN's role as a legitimizing body and participation in NATO and EU led operations.

10.3 Norwegian peace and reconciliation work

Situations can arise in which military presence is required to protect human security and help terminate conflicts that lead to serious breaches of human rights, suffering for the civilian population and damage to human livelihood. However, there is no doubt that preventing conflicts and resolving conflicts through negotiation saves both human suffering and economic resources compared with to the use of military resources. Peaceful conflict resolution will normally lay a better foundation for development and poverty reduction following a conflict, and an important initiative for ensuring a lasting peaceful solution is the implementation of a security sector reform.[12]

10.3.1 Norwegian support to peace processes

Norwegian authorities, Norwegian non-governmental organisations and research institutions have for a number of years played an active role in various peace processes. Norwegian authorities provide considerable support to international organisations that work for peace, conflict resolution and reconciliation. A positive development in this respect is that more wars are now terminated through negotiation than through a military victory, however there is a relapse to armed conflict for 43 per cent of these negotiated settlements. This particularly applies where there are unsettled disputes over land and where the peace process did not have the necessary support or was poorly framed. It has also been demonstrated that only 50 per cent of the agreements included proposals for weapons control.[13]

Use of development assistance to build peace after a conflict is a priority of the Norwegian authorities. The Ministry of Foreign Affairs has established a separate section with responsibility for peace and reconciliation efforts. The strategic framework for peace-building was presented in 2004, and in 2008 the Ministry of Foreign Affairs established the Norwegian Peacebuilding Centre. This resource centre is to help develop expertise for the UN's Peace-Building Commission, Norwegian authorities and other parties involved in this field.

An important perspective here is that conflict resolution can lay a development foundation through national policy processes, among other things, being initiated through the strengthening of the constitutional state. Instruments that Norway can contribute with in the latter field are police forces, judicial experts, court and prison personnel and more general democratisation and election support. Another area in which Norway has made its mark internationally is through the support for the ban on weapons with unacceptable humanitarian and development-related consequences, and which to a large degree targets the civilian population. This includes antipersonnel mines and cluster ammunition, where the agreement entered into in Dublin in May 2008 received support from more than 100 countries.

Among the circumstances that makes Norway a credible third party in conflict resolution processes, is the tradition as a significant financial contributor, absence of a colonial history, extensive NGOs and missionary networks, quick and flexible finance instruments, and cross party support on Norwegian initiatives that enable Norwegian players to withstand setbacks in peace processes. However, Norway does not function in a political vacuum and international resolutions, such as terror listing, can limit the scope for Norway's negotiation role.[14]

No individual country holds a particularly high share of successful peace mediation efforts when they act alone. In almost all conflicts, Norway works closely with other countries, and particularly with the superpowers and regional or other international organisations. During investigative phases, where the parties require discretion, they may prefer organisations or small states as facilitators.

12. Ministry of Foreign Affairs (2004). Utviklingspolitikkens bidrag til fredsbygging: Norges rolle (The development policy's contribution to peace-building: Norway's role). Oslo, Ministry of Foreign Affairs
13. Centre for Humanitarian Dialogue (2007). Charting the Road to Peace: Fact, Figures and Trends in Conflict Resolution. Geneva, CHA.
14. Helgesen,V. (2007). "How Peace Diplomacy Lost Post 9/11: What Implications for Norway?"

Box 10.1 Norwegian involvement in peace processes

- Norway was active in 13 peace processes in 2007
- Norway makes a contribution to most of the world's peace processes
- Norway was the facilitator in the peace processes in the Philippines and Sri Lanka
- Norway plays a more or less active role in 11 other conflict areas: Haiti, Somalia, Colombia, Nepal, Afghanistan, Sudan, Uganda, East Timor, Ethiopia/Eritrea and Burundi
- The total frame for the Ministry of Foreign Affairs' contribution to peace and reconciliation work, human rights, democracy and humanitarian aid is estimated at NOK 4.4 billion for 2008, or 20 per cent of the total development budget.

Source: Ministry of Foreign Affairs

The process of building a lasting peace begins when the parties have reached an agreement, and this requires a long-term effort from many actors. The UN and weighty peace nations are committed to creating coalitions, groups of friends and other measures to coordinate the international support for the parties' conflict resolution. The UN or selected countries often have special tasks in the coordination of the effort. In recent years, new actors have emerged on the scene holding different traditions and policies for conflict resolution, which can lead to conflicting interests among countries wishing to contribute.

10.3.2 Security sector reform

Another area Norway has prioritised through international organisations and own priorities is security sector reform (SSR). This based on the recognition of the need to protect individuals and society in an increasing number of internal conflicts, and, moreover, to ensure that national security enforcement does not threaten democracy, human rights or development, and is neither used by undemocratic Governments in order to retain their power.

The UN Security Council stated in 2007 that SSR is critical for consolidating peace and stability, for facilitating the reduction of poverty, improving legal systems and effective governance, and extending legitimate Government authority and preventing states relapsing into conflict. As the British DfID states «…a poorly handled security sector hinders development, reduces investments and helps poverty to continue.»

According to the OECD/DAC, a reform of this nature is a remodelling of the security system that includes all actors, their roles, responsibilities and actions, whereby it is led and driven in a way that is more in-keeping with democratic norms and good governing principles, and as such contributes to a well-functioning security framework.

This results in a far broader organisational security approach. In addition to the traditional security players, such as the armed forces and police, it also includes overarching governing and legislative bodies, the civil society's organisations, justice and legal system institutions, such as courts and prisons, and non-government security actors.[15]

One of the challenges related to poverty reduction is that an SSR in itself does not necessarily contribute to the reduction of poverty, perhaps especially where military and other security and intelligence players are intertwined in states' economic, social and political system, or where the Government is dependent on the military for retaining the power. In such cases, careful consideration must be given to whether an SSR should be supported, and if so it must be as part of a more long-term and poverty-reducing strategy.

According to the OECD, a coherence challenge is a lack of a holistic SSR strategy, which leads to donors supporting individual components instead of ensuring the totality of the programmes. A shortage of expertise to assist the countries has also been reported, not only in a technical sense but in creating an understanding for the need for reform, strengthening the organisation and local ownership.

Considerations of the Commission

The Commission believes that peaceful prevention and resolution of conflicts is the instrument that has the greatest effect for development and poverty reduction. Norway must continue and strengthen the effort to contribute to peaceful solutions to conflicts, and to the reconstruction of

15. OECD DAC (2007). OECD DAC Handbook on Security Sector Reform (SSR): Supporting Security and Justice. Paris, Organisation for Economic Co-operation and Development. Development Assistance Committee.

states and communities that can eventually be in a position to handle their own conflicts using peaceful means and protecting the interests of the most vulnerable.

At the same time, there must be a recognition of the need for collaboration and interaction with a broad range of states, organisations and individuals in order to ensure that these processes result in lasting and development-inducing solutions. This requires a high degree of professionalism and careful consideration of instruments and type of involvement on the Norwegian side. A greater degree of focus on women's involvement in peace processes will help strengthen this work.

Furthermore, the consistency of the various initiatives must be taken into consideration as Norway to such a large extent prioritises support to reconstruction, aid and state building for countries in which Norway has played a part in securing a peace solution. One prerequisite for Norway's ability to make a positive contribution to such processes is the possession of basic knowledge on countries and conflicts, as well as an ongoing debate on the content and outcome of Norwegian peace involvement.

In many countries in war and conflict, children and young people often constitute a large part of the population. This requires that the younger generation is included as key players in the processes that are to lead to a sustainable solution to the conflict, both in the actual peace process and in the reconstruction phase.

Norway and Norwegian organisations and researchers, have been driving forces in the effort to ban antipersonnel mines and cluster ammunition, and in limiting the spread of hand weapons. This is an initiative that is extremely important to continue as it has a great potential to reduce the threat to poor and vulnerable groups. Another important arena is the security sector reform. Here it is important to ensure democratic control over military instruments of power following a conflict, and to ensure that these instruments are not used against the population or to maintain oppressive regimes.

10.4 Arms and the arms trade

Access to weapons and ammunition is a prerequisite for the ability of a military force to maintain security, but these are also used to oppress and impoverish groups and individuals. Being able to limit the access to weapons and ammunition can therefore be an extremely important instrument for improved security and development. On an international level, this applies to hindering the proliferation of nuclear, chemical and biological weapons of mass destruction, which can threaten large parts of the world population. On a local level, it applies to hindering access to hand weapons and ammunition for groups and individuals that constitute a threat to peace and security. Some of these efforts must take place within international organisations, but Norway is also in a unique position to directly affect the control of the proliferation of weapons and ammunition.

Norwegian industry, including part government-owned companies, is a main supplier of weapon systems, components for the arms industry and ammunition. Norway is ranked as number 20 on the list of trade with Major Conventional Weapons (MCW) for 2006.[16] The Norwegian Government owns 50 per cent of the Nammo group, which in 2003 was the world's third largest producer of ammunition, and also has factories in Sweden, Finland and Germany. Report to the Storting no. 33 set the total value of Norwegian weapon exports in 2006 to NOK 2.92 billion, of which 15 per cent was ammunition and explosives, and a continuous increase in exports has been noted in recent years, particularly for ammunition. The bulk of these weapons and the ammunition were exported to other NATO members and the Nordic countries, but also to Japan, Switzerland and Australia.

A Storting resolution from 1959 says that «Norway will not permit the sale of weapons or ammunition to areas that are at war, or where there is a threat of war, or to countries involved in a civil war».[17] A 1997 clarification says that the Ministry of Foreign Affairs shall further consider «aspects linked to democratic rights and fundamental human rights». Norway operates an A and B list for types of weapon for export, where A is subject to the most stringent control. Likewise, the types of countries that export licences can be granted to are divided into three. Group 1 consists of NATO members and other related parties, group 2 is countries that Norway will not export defence material to, and group 3 is countries than can receive material from the B list. This control system is more stringent than that followed by many other NATO countries and Norway has also affiliated itself with the EU's «Code of Conduct on Arms Export». At the same time, it has been registered that Nammo's factories outside Norway do not

16. SIPRI. (2007). "SIPRI 2007 Yearbook", available at http://yearbook2007.sipri.org.
17. Marsh, N. (2007). Arms Export and Re-export. Oslo, PRIO.

adhere to Norwegian export regulations. This results in sales to countries that Norway considers to be undesirable recipients of hand weapon ammunition.

The challenge, in a security and poverty perspective, is not therefore primarily the control imposed on weapon exports from Norway, but that the buyer countries can re-export the Norwegian-produced military material – including NATO countries. In order to prevent arms going to undesirable recipients or to limit the recipients' use, an end user certificate (EUC) has been introduced where Norway shall give its consent to re-exporting from countries that signed this. However, group 1 countries, including NATO allies, are exempt from the certificate scheme.

Considerations of the Commission

The Commission is of the opinion that Norway has a great opportunity to help reduce the vulnerability of the civilian population in conflict-hit areas, both through its own initiatives, developing agreements in international organisations and via contributions to disarmament and security sector reform in conflict areas.

Arms and ammunition production can lead to more violence towards the poor and vulnerable, and arms and ammunition can be tools for oppression by states, groups and individuals. It is important for Norway as an arms exporter to introduce measures that lead to transparency and which provide the opportunity to trace exported weapons and ammunition.

Norway must take active part in the international effort related to the proliferation of nuclear weapons and for the nuclear powers to abide by the disarmament obligations of the Non-Proliferation Treaty. And, moreover, that the conventions on chemical and biological weapons of mass destruction are followed up and sharpened. We must make an active contribution to the strongest pressure possible on states that might possess such weapons.

10.5 International operations

The threshold for the use of military power has, as far as Norway is concerned, always been high. In accordance with the UN pact and the NATO treaty, Norway has an obligation to contribute to international military operations in certain cases. As per article V of the NATO treaty, Norway has an obligation to assist if a NATO country is subject to an armed attack. This NATO obligation is also founded in article 51 of the UN pact, which provides for a state's right to military self-defence against armed attacks. If the UN Security Council gives a mandate for the use of armed power pursuant to chapter VII of the UN pact, Norway as a member state is obliged to support the resolution, even although this does not entail an automatic obligation in international law to provide a military force contribution.

10.5.1 Norwegian participation

From participation in the Independent Norwegian Brigade Group in Germany in 1947 to the current engagement in Afghanistan, Norway has provided almost 120,000 personnel in 56 different operations.[18] The majority of these operations have been carried out under direct UN leadership or a UN mandate, where either NATO, the EU, AU or coalitions have been responsible for the exercise. Participation in these operations has formed part of Norway's overall foreign and security policy. Simultaneous to the number of peacekeeping operations rising from 1990, according to information from the Norwegian Military Forces there has been a clear reduction in the Norwegian participation in UN-led operations to the benefit of operations under NATO command, and Norway has also been involved in EU-led operations. Out of the ten states that take part mostly with uniformed UN forces, seven are low-income states, with Bangladesh, Pakistan and India being the three largest contributors of troops. Early in 2008, the UN had 82,000 military forces and 9,000 police outstationed. Norway took part in six of these UN operations, but provided only 56 military personnel and 38 police officers.

Norwegian police have taken part in international peace operations since 1989, known as the «Civilian Police». This has mainly been under UN leadership and includes the training of national police, but Norway has also contributed to regional organisations and in bilateral projects, with 30 officers being dispatched in 2007. An effort to improve women's security is part of the mandate. The Government's goal is that up to 1 per cent of the Norwegian police force at any time shall take part in peacekeeping missions.

The Ministry of Justice and the Police set up the Norwegian Crisis Response Pool as an emergency action group in 2004, with the UN, OSCE and EU as central commissioning parties. The group consists

18. http://www.forsvarsdialog.no/Default.aspx?tabid=113

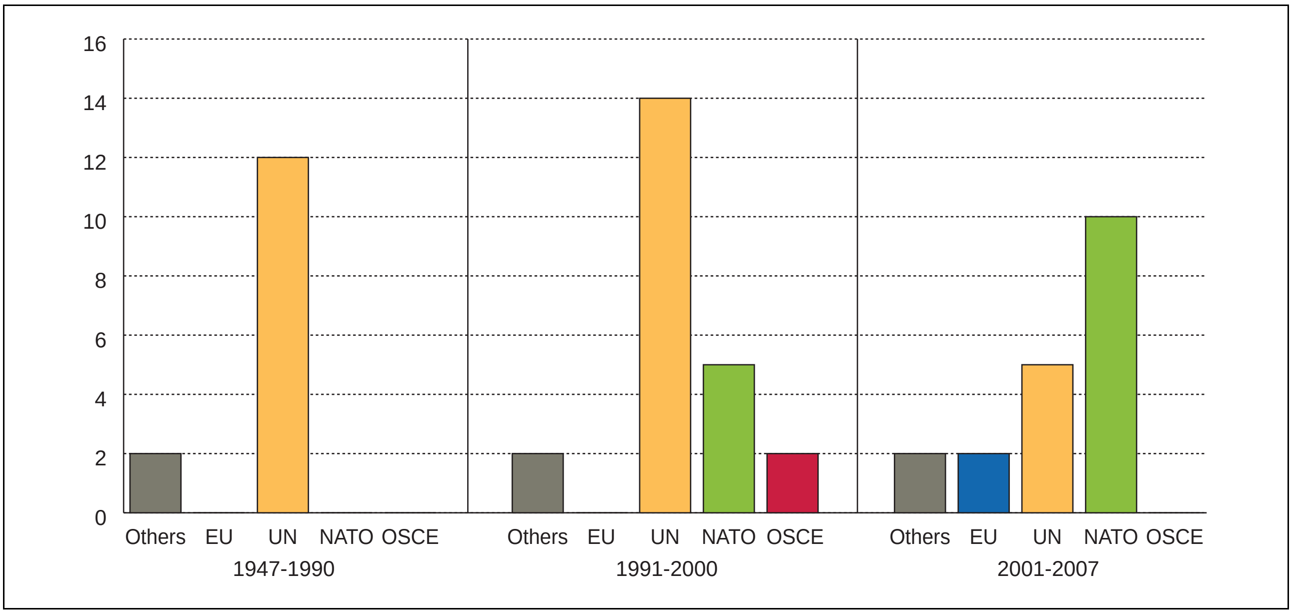


Figure 10.3 Norwegian participation in international peace operations. 1947–2007

Source: Data received from the Norwegian Defence

of 40 members, including judges, public prosecutors, judge advocates, police lawyers and personnel with prison work experience. The aim is to provide advice and assist towards development of democracy and constitutional states in countries that have been subject to war, internal conflicts or are undergoing democratisation.

10.5.2 Legality and legitimacy

Over the past 10 years, three international conflicts in particular have initiated a discussion on the legality and legitimacy of military operations:

- Kosovo 1999: There is disagreement regarding the legal basis for NATO's military action. There was no UN Security Council madate for the operation but those who argue in supported of NATO's attack on Yugoslavia are of the opinion that the military intervention was justified on humanitarian grounds and thus in accordance with international law.
- Afghanistan 2001: Both the USA's invasion and NATO's subsequent engagement in Afghanistan have been carried out in collusion with the UN Security Council, and with a mandate from the UN.
- Iraq from 2003: There is broad agreement that the American attack on Iraq was not in accordance with international law. Only after the invasion did the UN Security Council pass resolutions that welcome the presence of international forces.

In all of these cases, there has been debate in Norway and other western countries on whether military intervention could be supported. It has been shown that legality and legitimacy are not necessarily connected. Legal military interventions can be perceived as illegitimate, and illegal ones as legitimate.

The discussion on whether there is a basis in international law for humanitarian intervention is almost as old as the international law. Since the UN pact, Norway's view has been that there is no right to humanitarian intervention beyond the international law. This is because the UN pact does not only govern what types of threats should be dealt with using international military initiatives, but also establishes procedures for how resolutions on military initiatives shall be carried out: The UN Security Council has the monopoly on providing the mandate for international force beyond the self-defence cases.

10.5.3 Operation types and complexity

Since World War II, Norwegian forces have taken part in operations over the full conflict scale:

- Conflict-preventing operations
- Military observer missions
- Peacekeeping operations
- Peace-establishing operations
- Humanitarian operations

An international military operation will normally go through four phases after a demanding preparatory phase; 1) Entry, 2) Execution of the operation, 3) Stabilising, 4) Military security for reconstruction. The civil and military instruments will vary in scope and intensity depending on what phases are undergone, and there will be a constant assessment of what type of instrument is needed in the relevant context, and how they should be phased in and out.

With the exception of Iraq, there has been a tradition of a consensus in Norway regarding participation in military operations, with opposition from only single political parties. However, there is growing debate regarding Norwegian participation in international military operations, and what type of missions Norway should take part in.

In integrated, multidimensional missions the UN coordinates military, humanitarian and development-oriented efforts. This includes facilitating humanitarian aid and economic reconstruction, demobilisation and reintegration of former soldiers, reconstruction and reform of the police and judicial system, supervision to ensure respect for human rights and that elections are held[19].

The previously discussed complexity in today's conflicts puts stringent requirements on political authorities, military forces and civilian actors. It is an international political responsibility to analyse and address the reasons for conflict, and simultaneously contribute to negotiation-based solutions and protection of a population under threat. It is also a political responsibility to furnish and prepare the actors that will take part in an operation in a way that makes it realistic to carry out the mission, from a military, civilian and humanitarian perspective.

The operations' complexity also places extremely high requirements on military forces with regard to practice, training and equipment, robustness in relation to rules of engagement and the capability for interaction with and understanding for other actors' mandates, ways of organising and setting priorities.

Politicising, increased complexity and more operational experience have led to an intensified focus on integrated missions,[20] and the multidimensional challenges these entail. There is an ongoing debate on the relationship between civil and military actors in the operation area. Focus is aimed at the need to improve coordination and interaction, clarify roles and improve knowledge of each others' activities and modus operandi. This applies to all levels, from overarching international political coordination to local cooperation in the field.

10.5.4 Coordination and organisation

Civilian actors that operates in conflict areas constitute a conglomerate of multinational, international and national humanitarian and development-oriented organisations and includes both governmental and private ones. Whilst on the political, military and civilian side there are a number of coordinating bodies, creating a coordinated effort is a challenge, as is gaining acceptance that coordination will lead to organised interaction and not control of individual actors. In addition to the nation state, civilian actors make up the most important component in state building, recovery of the constitutional state and in reconstruction and provision of humanitarian assistance, and there is growing recognition that ensuring lasting peace primarily depends on this effort.

All of Government approach builds on the acknowledgement that vulnerable states can constitute both a development challenge and a threat to international security, and the security, governance and development challenges must be viewed in context. This entails that Governments that involve themselves in such conflicts must ensure an integration of their defence, diplomatic, development and other policy instruments with regard to these states.

A part of this debate is to what extent military personnel shall take part in humanitarian, reconstruction and state building activities, and under whose command. The existing framework for assistance provision in complex crises places the military organisation, assistance prioritisation and provision under a humanitarian command, outlined in the Oslo declaration.[21] The introduction of Provincial Reconstruction Teams, with both military and civilian personnel, has challenged this division. There are major differences here between nations with regard to what degree the military is responsible for provision of humanitar-

19. From the Ministry of Foreign Affairs' website on Multidimensional and Integrated Peace Operations http://www.regjeringen.no/en/dep/ud/selected-topics/un/integratedmissions.html?id=465886
20. Barth-Eide, E., Kaspersen, A.T., Kent, R., von Hippel, K, (2005). Report on Integrated Missions: Practical Perspectives and Recommendations, The Expanded UN ECHA Core Group.
21. OCHA (2008). Civilian-Military Guidelines & Reference for Complex Emergencies. New York, United Nations Office for the Coordination of Humanitarian Affairs.

ian assistance and implementation of rehabilitation and development projects, or whether they leave this to the humanitarian actors or private companies. Norway has maintained a clear division in these tasks, but this is the subject of ongoing international debate.

According to NATO's doctrine,[22] the *Civilian Military Co-operation (CIMIC)* is defined as: «Coordination and collaboration, to support the mission, between a leader of the NATO operation and civilian parties, including the national population and local authorities, as well as international, national and non-government organisations and agencies.» CIMIC has three main functions; 1) civilian-military liaison to facilitate and support the planning and execution of the operation, 2) support for the civilian environment in order to underpin the military operation and 3) support for the military force in order to ensure civilian support and information.

This in turn places great demands on contributors. On this basis, it is also interesting to analyse how we in Norway choose to organise ourselves to meet these challenges. The Afghanistan mission gives an insight into organisations and the civilian and military division. With regard to 2008, there is a parity between the financial contributions towards the military and civilian effort, and Norway has a strong involvement in improving the UN's coordination role. The Norwegian military forces are placed under ISAF command, and Norway heads a Provincial Reconstruction Team in the Faryab province in addition to Norwegian special forces being stationed in Kabul. There are also Norwegian military personnel in ISAF headquarters and in UNAMA.

NATO'S *Comprehensive Approach* aims to execute military, political, development and humanitarian policy instruments in a holistic and coordinated manner[23].

The Faryab province has moreover a presence of police and personnel from the Norwegian Crisis Response Pool, while Ministry of Foreign Affairs staff administer the humanitarian/development support. A clear division is thus created between the military and the humanitarian operation, while there is an opportunity for a close and coordinated collaboration. Norway also provides personnel from the police and the Norwegian Crisis Response Pool to central Government bodies in Kabul.

A central coordination group for Afghanistan has been established in Norway, in which ministries involved are invited to secure contact at both a political and civil service level. Based on an assessment of this organisational arrangement, the Policy Coherence Commission is of the impression that this does not to a sufficient degree safeguard a coherent Norwegian policy for international operations.

Considerations of the Commission

The Policy Coherence Commission with the exception of Kristian Norheim is of the opinion that the threshold for the use of military powers should be high. Norway's participation in international military operations requires a clear UN mandate, the forces need to be equipped, trained and prepared in a way that makes them able to resolve the various challenges that the mission entails, and the delineation of boundaries between our civilian and military contributions must be clear. Norway should also take an active part in building capacity and increasing expertise in regional organisations.

The Commission is moreover of the opinion that being able to think and plan holistically in all phases of the operation is a determining factor for the success of an operation. This to ensure the greatest possible degree of coherence, transparency and understanding during the decision making processes between the affected parties. It is fundamental to a holistic approach that the many actors that operate in the core and outer edge of various operations have thorough knowledge of and respect for each others' expertise, fields and methods of operation. The Commission therefore suggests a number of measures to improve this knowledge.

Multidimensional and integrated missions are characterised by great complexity. It is vital for a successful execution that we are able to coordinate national contributions in the most effective and systematic way possible and that the way we choose to organise ourselves takes into account the diversity of players and multidiscipline involved in the decision processes.

Commission members Julie Christiansen and Kristian Norheim are of the opinion that although a lower level of conflict will generally strengthen Norwegian security, the use of Norwegian forces abroad must always be based on a thorough security policy assessment. These members also believe that contributing to a UN-led world order is

22. NATO (2003). AJP-9 NATO Civilian-Military Cooperation (CIMIC) Doctrine NATO. 2007
23. Press release from «Speech at the NATO Meetings of the North Atlantic Council Brussels 26 January 2007» by the Minister of Foreign Affairs, Jonas Gahr Støre Ministry of Foreign Affairs 30.01.2007

an important vision, but as the UN's expertise, capacity and organisation stands today, other security organisations will be important in the exercising of international military operations. There is not necessarily any contradiction between supporting the UN's legitimising role and to help strengthen other defence collaborations and security structures internationally.

In building the Norwegian Armed Forces, Norway should factor in support for and participation in UN-led operations.

10.6 Organisation and resources

There are many and diverse actors involved in the peace, security and defence sector. With an increasing focus on the development of integrated and multidimensional missions within the UN, a «comprehensive approach» within NATO and a greater degree of civilian-military interaction in the field, this places new requirements for a coordinated policy development, practical interaction and not least ways of organising the efforts. In brief, a more holistic approach combined with a clear role distribution. Interaction takes place between Government and private institutions and organisations with very different mandates, organisational structures and traditions, that traditionally have had limited formal contact and experience in collaboration.

Experience dictates that a detailed control of actors involved would not succeed; it can rather hamper the utilisation of the breadth of knowledge, involvement and networks of the various actors. Multidimensional approaches place even greater requirements on the form of organisation and interaction, and on space for critical discussions on approaches and priorities. At the same time, there appears to be broad agreement that the current way of organising is not adequate to ensure a more coordinated effort; it is too fragmented in relation to knowledge and organisation.

The report « A strengthened defence» (NOU 2007: 15) points out the need to improve the coordination of Norwegian military and civilian efforts in international operations, and in the present report's poverty perspective the Norwegian peace effort, security sector reform involvement and weapon export must also be included. This entails policy coordination and involvement of all sector ministries in decision-making processes, and a broad and permanent organised consultation to ensure that a broad range of opinions as possible are brought into the debate when balancing Norwegian obligations and interests, and in ensuring the broadest support possible for the chosen policy.

Considerations of the Commission

The Commission is of the opinion that organisational structure and clarified responsibility are two key factors for succeeding in finding the best policy instruments for ensuring peace and development in a given situation and phase of a conflict. This applies in Norway, in international organisations, in relation to states in and after conflicts with those who carry out the practical peace, reconciliation and reconstruction and development work in the field.

If Norway is to succeed in its peace initiatives and international operations, professionalism must be exercised in all areas. This entails the Norwegian actors holding the necessary expertise and resources to fulfill the responsibilities they take on, and that this become part of a continuous process of reflection and learning. This requires shared skills-building and establishment of a permanent centre of competence.

Stronger er emphasis on expertise can entail a need to prioritise the Norwegian effort, both between actors and priority areas. When then considering where Norwegian resources should be targeted, its ability to reduce poverty must weight heavily in.

10.7 Overarching considerations of the Commission

The Commission is of the opinion there is an obvious correlation between conflict and poverty. Policy instruments that can create peace and improve security for the poor might at the same time facilitate economic and social development and can contribute to the development of more efficient governance. This is in turn positive for Norway, for securing Norwegian interests and for the global community. Peace is a common good when it also protects the interests of the poor and helps in establishing good governance.

Creating and maintaining peace or reducing the level of conflict, either through negotiations, civil contributions or by employing military forces in conflict-preventing, peace-inducing and peacekeeping operations can create the prerequisites needed for poverty reduction.

Peace, defence and security policy is an area with many coherence considerations. The principal consideration is the harmonisation of Norwegian policy and choice of the policy instruments that are most effective in relation to poverty reduction and guaranteeing sustainable development. Another consideration is what policy instrument should be used in what situation, taking into account our obligations towards the Millennium Development Goals, human security, R2P and obligations towards alliances we are members off. And, moreover, when are the different initiatives to be phased in and out, and how best to protect and balance the interests of those in need of peace up against protection of the Norwegian civil and military forces that are to assist them? Additionally, what provides the best result in relation to poverty reduction in both the short and long term, and what is the most cost-effective use of Norwegian and international resources?

The simple answer is that initiatives that can prevent or resolve violent conflicts through negotiation or by peaceful means provide the best return for the world's poor. This remains a valid conclusion despite the fact that many negotiated conflicts relapse into a new conflict after the first negotiated settlement. A combination of political and humanitarian/ development-related instruments will have to be used throughout the entire process from prevention, via negotiation to reconciliation and the establishment of a (more) peaceful co-existence. Negotiations and peaceful solutions form the basis for greater participation from poor countries and increases their ability to handle own conflicts, and thereby a higher degree of local ownership and responsibility for ensuring and preserving peace, good governance and development.

One overarching goal is to limit damage to the civilian population and reduce the use of violence. Export control and the tracing of ammunition, control of hand weapons, strict enforcement of the ban on landmines and cluster weapons and security sector reform are policy instruments that have extensive international support, for which Norway is part of an international network and is in a position to influence policy. This is an area with extensive interaction between political, civil society and military actors, with broad participation from developing countries that might generate international networks to further such policies internationally and in the poorest countries.

In some cases the use of military means will be the only viable alternative for protecting populations, preventing attacks against the most vulnerable and damage to infrastructure and property. Conditions that increase poverty and vulnerability, and hinder development. Military interventions are the most resource-intensive with regard to personnel, logistics and funding. Experience has led to an increasing recognition that the military interventions must be combined with political and development-related instruments in order to contribute to lasting conflict reduction. Military interventions are highly politically sensitive and places a high demand on organisational capacity and coordination in Norway and internationally.

Given the complexity and the large number of different actors, in Norway and internationally, and the need to prioritise different instruments during the different phases of an intervention, there is a need for a high degree of coordination within this field. It is moreover important to recognise that the different actors have different approaches, guidelines and forms of organisation, and that there is limited formal contact between the various actors and knowledge of each other's working methods and priorities. This places a demand on how efforts are organised, and ways to ensure dialogue and coordination between Norwegian political, military, humanitarian and development actors.

10.8 Proposal for initiatives within the peace, security and defence policy

10.8.1 Peace and reconciliation

Initiative 1. The Commission with the exception of Kristian Norheim is of the opinion that since conflict prevention and conflict reduction is of global significance as well as in Norway's interest, and in addition an important tool in reducing poverty, the effort should be further strengthened and professionalised.

- The foreign service should to a greater extent be oriented towards engagement in conflict areas. A number of countries have already reorganised their foreign service and assistance mechanisms towards conflict areas that constitute a global challenge. There is a need for a substantial reorganisation of the use of resources in the foreign service, in Norway and abroad, in order to handle the challenges such prioritising generates in a satisfactory manner.
- The work to professionalize the peace and reconciliation engagement effort should be continued. The work should be knowledge-based and take place in close interaction with Norwegian and international research environments.
- International networks should be further developed. Various actors can play different roles, from the UN, via nation states to private ones.

Norway should further develop its role and position as a key supporter of such actors.
- Norway must ensure that women are placed in key positions across the scope of the international involvement that Norway undertakes.
- Norway must recognise children and youth as key actors in peace and reconstruction processes, and ensure that their perspectives and rights are secured in the international involvement that Norway undertakes.

10.8.2 Arms and the arms trade

Initiative 2. With the exception of Kristian Norheim and Julie Christiansen, the Commission is of the opinion that Norway needs to introduce an end user declaration also for sales of arms and ammunition to NATO countries, and set conditions for any onward sales.

Initiative 3. Norway must establish an export control council and closer involvement by the Storting in the approval of arms export licences.

Initiative 4. The Commission with the exception of Kristian Norheim is of the opinion that Norway must use its ownership interests in the Norwegian arms industry to ensure that the sale of arms and ammunition takes place in accordance with rules that are on a par with Norwegian rules, also with regard to sales from the industry's factories in other countries.

Initiative 5. Norway must introduce tracing mechanisms for arms and ammunition. Arms and ammunition that are produced in Norway must be marked with information about manufacturer, first buyer and the production batch, and Norway must work towards a similar international labelling practice.
- Information on the labelling practice and who has bought the weapon and ammunition must be kept on file and be accessible to third parties involved in tracing the products back to the manufacturer/seller.

Initiative 6. The Commission with the exception of Kristian Norheim is of the opinion that Norway should consistently use the UN's authoritative hand weapon definition, regardless of whether the term is used in Norway export control contexts or in other contexts.

10.8.3 A UN-led world order

Initiative 7. With the exception of Kristian Norheim and Julie Christiansen, the Commission is of the opinion that Norway should prioritise military contributions to UN-led operations, but should also contribute with forces to NATO and EU-led operations when these are provided with the necessary legality by the UN Security Council.
- Norway should actively take part in building capacity and expertise in regional organisations, including the secondment of specialist personnel when required. The purpose of this is to strengthen management and management structures in the organisations in order to make them more suited to preventing conflicts and carrying out peace missions, and thereby ensuring their legitimacy.

Commission members Audun Lysbakken, Lars Haltbrekken and Camilla Øvald refer to Initiative 7 in chapter 10 on the privisions for Norwegian military contributions to international operations. These members are of the opinion that Norway should seek a security policy foundation outside of NATO. Participation in NATO's operations outside one's own area will always entail a considerable risk that important NATO members' own security policy and strategic interests will determine the priorities, and not considerations to development and ending of hostilities in the individual conflict-affected areas. The increased force contributions from western countries to NATO operations undermine the UN's capacity and authority to take on the most important international missions. It is the view of these members that Norwegian participation in NATO's international operations therefore constitutes a substantial coherence problem in relation to declared Norwegian goals of prioritising peace and development and working towards a stronger UN. These members are of the opinion that Norway should not contribute with military forces to EU-led operations, since Norway is not a member of the EU. These members' primary view is therefore that Norwegian contributions to international operations should be reserved for UN organised operations. Within the framework of Norwegian NATO membership and the security policy directions that currently apply for Norwegian policies, however, the Commission's proposal to place the highest priority on military contributions to UN-led operations will entail a development that these members regard as positive. These members have therefore endorsed the proposal.

Commission members Anne K. Grimsrud and Hilde Gjengedal do not find it appropriate to provide military forces to EU-led operations.

Commission member Kristian Norheim is of the opinion that Norway should prioritise military contributions to NATO-led operations, but should also contribute with military forces to EU and UN-led operations if the resource situation allows for it.

10.8.4 Integrated multidimensional operations and organisation

Initiative 8. The Commission is of the opinion that the Norwegian Government must undertake a review of the current organization of and routines linked to the preparation, initiation, execution and evaluation of integrated multidimensional missions in order to identify improvements that will ensure a greater degree of coherent policies for development and more multidisciplinary approaches at all levels of the decision-making processes.

- The capacity to ensure the optimum coordination and multidisciplinary aspects linked to these operations should be strengthened considerably by the Office of the Prime Minister. The complexity of the challenges and the multidisciplinary aspects that are required in order to achieve the goals set require an overarching coordination that is independent from the specialist ministries.
- At other levels, the work will be led by the specialist ministries according to their constitutional responsibility. Permanent consultation mechanisms should be devised to ensure that the multidisciplinary aspects in the work is observed at both a political and civil service level.
- Knowledge of each others' areas of responsibility is vital for effective collaboration and coordination. Permanent meeting points should therefore be established at both a political and civil service level, which includes the most involved parties. Security policy, development policy, legal and military views must all be involved directly in the decision-making processes.
- The Government's security Commission, various state secretary Commissions and permanent civil service groups should regularly discuss problems linked to integrated multidimensional missions and highlight questions related to development and humanitarian issues in these discussions. Likewise, military headquarters and other operational leadership should integrate multidisciplinary expertise.
- In the long term, the multidisciplinary aspects and expertise in integrated multinational missions could be strengthened through a larger degree of exchange of employees between various ministries and subordinat institutions than what is present practise. Common components should be developed in the education systems for the police and the military forces. Consideration should be given to developing a special unit with civil military expertise, for example at the Norwegian Defence Education Command, for specialist environments to draw on.
- A national council should be created for handling the entire range of Norway's involvement within international crisis and conflict management and peace work. The council's task would be to give advice on key problems linked to international multidimensional missions, and contribute with experiences linked to developing coherent policies for development and operationalising integrated operations. The council should have a broad composition, including civilian, military and humanitarian expertise in integrated multidimensional missions.

Chapter 11
Financial and administrative consequences

A number of the Commission's proposals will have administrative consequences for various parts of the Government departments. As a rule, costs of such changes must be covered by these institutions' and the budgets of ministries' in charge. This also applies to costs for various reports that these institutions may carry out in connection with the proposals of the Policy Coherence Commission.

A number of the initiatives that entail costs, as well as those that entail lower tax revenues for the public sector, also lead to short-term and long-term social gains/revenues that are difficult to calculate. Some of these gains will be of a global nature. The Commission bases its argument for such initiatives to a large extent on calculations made by Norwegian and international researchers.

Proposal in chapter 3, A coherent policy for development

The first proposal under the initiatives in chapter 3 applies to institutional reforms that can strengthen the political and administrative capacity to develop a more coherent policy for development. The proposal applies to the creation of a unit in the Ministry of Foreign Affairs that can take responsibility for this policy on behalf of the Government. The costs of this must be covered within the Ministry of Foreign Affairs' budget.

Chapter 3 also includes a proposal to introduce regular reporting to the Storting for the collective effect of Norwegian policies on developing countries. It should be the responsibility of the unit for coherent policies for development in the Ministry of Foreign Affairs and covered within the Ministry's budget.

The proposal for an independent evaluation to be carried out regularly of coherent policies for development should also be the responsibility of the proposed unit in the Ministry of Foreign Affairs and covered within the Ministry's budget.

Proposal in chapter 4, Trade

It is proposed that a critical review is made of all Norwegian subsidy schemes in order to examine the extent to which they support coherent policies for development. The costs of this should be covered within the Ministry of Foreign Affairs' budget.

The announcement of public tenders in middle-income countries also entails costs for the institutions submitting such tenders. It is not possible to estimate how high these costs will be.

VAT exemption for ethical goods that are certified by fair trade schemes entails a loss of tax revenues for the Government. The sale of such goods is likely to increase with the implementation of such an initiative, but it is unclear by how much. In addition, the manufacturers of such goods will receive an increase in income that is difficult to quantify. The Commission has not therefore made any calculations of the magnitude of this loss of income.

Proposal in chapter 5, Business investments

Positive screening for coherent policies for development of investments from the Government Pension Fund – Global is proposed. This will entail costs that must be covered by the Ministry of Finance/Norges Bank's budgets.

A change is proposed for the ethical guidelines for the Government Pension Fund – Global with a view to being able to withdraw companies with a base in countries that breach human rights. This will entail fees to institutions that have expertise in this field. The costs must be covered by the Ministry of Finance/Norges Bank's budget.

The proposal on reporting and consultation in the Storting with Norges Bank, with regard to their choice and priorities in relation to exercising ownership in companies that the Government Pension Fund – Global has interests in, entails an administrative change but probably not significant costs.

It is proposed that an investment fund is built up for developing countries associated with Norfund, which corresponds to 1 per cent of the Government Pension Fund – Global. The costs of the actual fund are estimated at NOK 10 billion, which should be accumulated through allocations from the national budget over five years. The costs of managing the fund should be covered within these allocations within the Ministry of Foreign Affairs' budget.

GIEK will have increased costs through carrying out evaluations of investments in order to ensure that they are sustainable and through developing a new strategy for the institute's developing country scheme.

Increased annual costs will also accrue through the proposal to increase the ceiling for GIEK's developing country scheme. No amount has been proposed but the costs of the initiatives that relate to GIEK must be covered through increased allocations from the national budget for the Ministry of Trade and Industry/GIEK.

It is proposed that the Ministry of Foreign Affairs should review the external resources, including Innovation Norway, in order to be able to assist companies that want to set up business in developing countries. This should initially be a study that the Ministry of Foreign Affairs covers from its own budget. There may subsequently be a need for strengthening the foreign service. This must be covered by the Ministry of Foreign Affairs' future budgets.

A study is proposed in order to map whether bilateral trade agreements will be able to increase the volume of Norwegian investments in developing countries and to what extent they restrict developing countries' policy space. The study should also map how such agreements should be formulated in order to have an optimum effect on development and the fight against poverty.

It is proposed that the Government Pension Fund – Global maps the scope of the fund's investments in tax havens and considers measures in order to limit the scope of such investments and establish partnerships and a common strategy with other funds. The costs of such a study and development of a common strategy must be covered by the Ministry of Finance/Norges Bank's budget.

It is proposed that a statutory standard is introduced for reporting on social and environmental indicators. This should apply to all Norwegian companies and foreign companies listed on the Oslo Stock Exchange, be publicly accessible and be based on the established GRI standard. Costs here should be covered by the Ministry of Trade and Industry.

The proposal to strengthen OECD's conflict contact point in Norway to implement the OECD's guidelines for multinational companies and, until this happens, to create a national information and monitoring body in the form of an ombudsman, will lead to costs that should be covered by the Ministry of Trade and Industry's budget.

It is recommended that clear guidelines be drawn up for all Government ownership management. The ethical guidelines for the Government Pension Fund – Global are regarded as a suitable starting point. The costs of this must be covered by the Ministry of Trade and Industry's budget.

Proposal in chapter 7, Climate and energy

The proposal that Norway should commit to being 2.5 times carbon neutral by 2025 and reduce its emissions by 90 per cent by 2050 will lead to both social costs and revenues. This is support of a global public good and the Commission is leaning on international experts in its presumption that the long-term global economic effect of this is positive.

The proposal for an obligatory mix of biofuel at 2 per cent in fuels and mechanisms that ensure sustainable production of biofuels will most likely entail subsidies from the national budget in order to achieve the necessary change in production and consumption of such fuels. The Commission is supported by international experts in its presumption that the long-term global socioeconomic effect of this is positive. Costs may accrue in the budgets of the Ministry of the Environment, the Ministry of Petroleum and Energy and the Ministry of Agriculture and Food.

The proposal to introduce a 5-year moratorium on the allocation of new exploration blocks will entail substantial costs for the Norwegian public purse. It is a presumption that such a moratorium will have climate effects that lead to a positive global economic effect. The economic loss and the tax loss for the Government have not been calculated.

The Commission proposes an increased focus on research into the climate, renewable energy and environmental technology. The increase in costs for this must be covered by the responsible ministries' budgets.

The Commission proposes that until a climate agreement that sets a ceiling on the emissions in all countries is in place, Norway should earmark between 1.5 and 3 per cent of the GDP per annum – NOK 30 to 60 billion – for measures to reduce greenhouse gas emissions nationally and internationally. It is assumed that in the long term this will lead to positive global economic gains.

It is proposed that Norway works towards international statutory CO_2 handling at all new fossil fuelled power stations from 2020. Norway and other OECD countries should lead the way and introduce such statutory handling from 2015. It is presumed that a regulation of this nature will impact the climate, which will in turn lead to a positive global economic effect. The costs of this have not been calculated.

Proposal in chapter 8, Knowledge policy

An evaluation has been proposed of the many, uncoordinated international initiatives within the health sector aimed at developing countries, as well as a study into the possibilities for coordinating existing multilateral research initiatives in this field. The costs of this must be covered by the Ministry of Health and Care Services' budget.

It is proposed that Norway shall take the initiative to establish a global fund for health research in association with the WHO, ref. the proposal by the Commission for macroeconomics and health. The costs of starting this initiative and future Norwegian contributions must be covered by the Ministry of Health and Care Services' budget.

It is proposed that Norway shall provide special support to existing global funds and networks within climate research and biodiversity, which help develop knowledge for developing countries in collaboration with these countries. The costs of this must be covered by the Ministry of the Environment's budget.

It is proposed that the Norwegian Government should require that public research institutions and recipients of public research funds make research results publicly available by 1) uploading published articles and results to freely available electronic databases (Open Access), similar to what is currently being done in the EU, USA and a number of other places, and 2) license out patented technology on favourable terms to low-income countries. The proposals can entail direct loss of revenues for those who publish and produce and sell medicines, but can also mean substantial global economic gains. Both economic gains and costs will accrue. The Commission assumes that these effects will be positive on balance.

Proposals in chapter 9, Migration policy

A proposal has been made to permit the immigration of unskilled workers from countries outside the EEA area. The Commission is supported by international expertise on migration in that this can have significant positive economic consequences for the countries of origin. No calculations have been made but it is believed that this could also have a positive economic effect for Norway.

The creation of loan schemes has been proposed, with high underwriting for migrants that want to start up a company in their country of origin. They should be able to apply while resident in Norway. Costs of this initiative must be covered by the Ministry of Labour and Social Inclusion's budget.

It is proposed that migrants without official papers in Norway be given the right to basic health services in addition to emergency treatment, and that providing humanitarian aid to such migrants is legalised. The costs of this will probably be modest and should be covered by the Ministry of Health and Care Services' budget.

Proposals in chapter 10, Peace, security and defence policy

It is proposed that Norway introduces tracing mechanisms for arms and ammunition that are produced in Norway, whereby they are marked with the manufacturer, first buyer and production batch, and that Norway works towards a similar international labelling practice. Costs of introducing the tracing scheme must be borne by the manufacturers.

It is proposed that the capacity to ensure the coordination and multidisciplinary aspects linked to integrated multidimensional operations at all levels in the decision-making process should be strengthened considerably by the Office of the Prime Minister. The costs of this must be covered by the Office of the Prime Minister.

It is proposed to create a national council for the handling of the entire range of Norway's involvement within international crisis, conflict handling and peace work in order to give advice in connection with international multidimensional operations and contribute with experiences linked to the coherence and operationalisation of integrated operations. The costs of this should be covered by the Ministry of Foreign Affairs and the Ministry of Defence.

Appendix 1

Contribution from resource persons from the south

The Policy Coherence Commission has asked four prominent development researchers with a basis in developing countries to share with the Commission their points of view on and experiences in formulating policies in all relevant areas that are important for creating positive social and economic development in the global south.

A big thank you is extended to the following for their contributions, which are given below:

Elizabeth Eilor, Executive Director of African Women's Economic Policy Network, Uganda.

Sony Kapoor, Head of The Development Environment & Finance Exchange (DEFINE), Oslo.

Pamela Mbabazi, Dean, Faculty of Development Studies, Mbarara University of Science and Technology, Uganda.

Yash Tandon, Executive Director, The South Centre, Geneva.

1 Elizabeth Eilor: Coherence. Its Relevance and significance from the African women's perspective

By: Elizabeth Eilor
Executive Director
African Women's Economic Policy Network (AWPN)

On behalf of the entire African Women's Policy Network membership I would like to thank you very much for this opportunity to share our thoughts with the Committee. Over the years, the African Women's Policy Network has benefited hugely from the support of the Norwegian civil society groups, and we are grateful for this opportunity to highlight the important steps to bring about a whole-of-government approach to the fight against poverty and injustice.

The African Women's Policy Network is a continental civil society organization, with a membership of over 150 women's organizations in Africa – for whom poverty eradication is a prime goal. Ours is a passionate and committed constituency. A constituency that can give shape to the Governments' commitment to make the fight against poverty a central plank of Norway's foreign policy, in relation to Africa.

This paper discusses the issue of coherence from a gender and development perspective. It benefits from my work as a policy and gender analyst working in Africa. It echoes the voices of the African women, whose concerns have most often not been seen as a critical path to the development policies perused in Africa.

First and foremost, in a globalized world it is increasingly difficult to trace the origins of Economic policies. Policy makers at national level claim that their decisions are influenced by global developments and by pressures from international bodies such as the World Trade Organization and the International Financial Institutions. Representatives of these institutions in turn argue that their decisions solely reflect the will of the member states of these organizations and hence point to the responsibility of the respective Governments and parliaments. What looks like a typical blame game can also be called – using the language of the present. Macroeconomic policies and policy coherence need to be developed according to principles and frameworks that uphold people-centered development, human rights and social justice. They must guide economic decisions and actions that benefit all, particularly the most vulnerable groups (Ashoff 2002; UNIFEM et al 2004: 381; ICFTU 2004).

Coherence is a complicated and multi-faceted term used, and arguably misused, in a range of contexts. However, I do not intend to repeated this discussion here. For the present purposes, however, coherence is not just a matter of whether policies that might conflict or cancel out one another are adequately aligned to meet set objectives – it is also about how international cooperation fosters efficiency and national welfare by allowing Governments to meet policy objectives that might otherwise elude them. So far as the notion of international cooperation is concerned, this is also a term open to divergent interpretations. Cooperation can be more or less explicit and more or less binding.

However, the emerging coordination of macroeconomic policies, principally trade and financial policies is currently dominated by the multilateral trade and financial institutions, namely the World Trade Organization, the International Monetary Fund and the World Bank instead of the UN-led follow-up mechanisms. As far as its direction and nature are concerned, the concept of policy coherence is incongruent with internationally agreed commitments, particularly with the Beijing Platform for Action and the MDGs. This state of affairs can further limit the sovereignty of Governments in formulating and implementing domestic policies and strategies of their own that would put people at the center of the development process.

Policy Coherence

Efforts to systematize policies and agreements in IMF, World Bank and WTO discussions and negotiations have created even greater pressure for developing countries to adopt market liberalization, deregulation and privatization (Caliari 2004; Nageer 2004). For example, the IMF and the World Bank are increasingly involved in trade and trade-related policies in support of the WTO, providing trade-related technical assistance, research and training activities and ex ante mechanisms such as country performance assessments prior to loan approval or grant disbursement (Williams and Caliari 2004: 7).

This particular direction of policy coherence can further limit the sovereignty of Governments in formulating and implementing domestic policies and strategies of their own that would put people at the center of the development process. It is also leading to a lack of con gruence between the multilateral trade agreements and other agreements and internationally agreed commitments, particularly the Beijing Platform for Action and the MDGs. Although the founding principles of WTO, IMF and WB commit these institutions to work toward the attainment of people-centered goals.

This compartmentalization of institutional mandates reflects, to a large extent, a parallel situation faced by national Governments, where there is often a lack of interdepartmental coordination geared to achieving development goals, since actions are taken exclusively in their respective spheres of governance. It also leads to incoherent policies not only at the national level but at the international level as well. Economic and trade ministers commit themselves to trade liberalization in multilateral, regional and bilateral negotiations; at the same time, other Government officials and representatives agree to norms and standards of human rights, environmental protection and the empowerment of women by signing legally binding and nonbinding conventions, resolutions and declarations (Walker 2004).

Coherence and Poverty eradication

The challenge of meeting the eight MDGs in African countries is compounded by the grave long-term risk that climate change poses. African countries demonstrably require additional resources for adaptation since they are particularly vulnerable to the effects of climate change and the growing risk of natural disasters. At least some of these additional resources will be needed to «climate proof» all projects and policies intended to achieve the MDGs and to strengthen the resilience of communities to the effects of natural disasters. Threats posed by climate change and natural disasters further increase the need for regional cooperation and integration in areas of economic policy, infrastructure (e.g., power pools, transport and communications infrastructure), research, and the management of trans-boundary river basins.

Similarly, the continuing threat of conflict threatens to reverse development gains in many parts of the continent. Evidence shows that security and development go hand in hand. Investing in development is critical for reducing the risk of conflict. Strong political leadership — including through regional mechanisms — coupled with effective support for peace building and longer-term development are key elements of strategies to stabilize post-conflict countries and prevent the emergence of new conflicts.

The recent rise in food prices is putting great pressure on African economies and is threatening to unravel hard-won progress in fighting hunger and malnutrition. However, the crisis also offers a window of opportunity to increase needed expenditures in agriculture and to remove obstacles to an open trading system in agricultural commodities to the benefit of African countries. The dangers of a decelerating world economy add to the challenges that African countries face now and in coming years. The MDGs and the international development agenda as a whole, including a successful conclusion of the Doha Development Round of trade negotiations under the World Trade Organization, need to be kept at the forefront of the global agenda to reduce the likelihood of slower increases or even reductions in the availability of financing for development.

The vertical dimension

Addressing policy coherence at the vertical level involves an examination of the vertical linkages between the macroeconomic environment created by international trade, investment and loan agreements and the adjustments and changes involved at the national, sectoral, household and individual levels. The need to enhance the coherence between national development strategies, particularly in developing countries, and global trade and financial processes was particularly stressed at the UNCTAD XI conference in Sao Paulo in July 2004.

Women experience poverty differently from the way men do because they typically have less control over resources. As Çagatay (2001) puts it, macroeconomic policies are predicated on a set of distributive relations across different social groups, just as they entail distributive choices across different social groups. If this fundamental fact is not borne in mind, policy implementation and coherence.

In recent decades, increasing numbers of women in LDCs have taken on the role of income earners and «breadwinners». In fact, the increasing rates of women's economic activity observed in several countries have been shadowed by declining rates for men. Increasingly, women in LDCs remain in the labor force throughout

their childbearing years, finding ways to combine family responsibilities with market work (United Nations 2000).

In addition, women's share of work in farming and in informal-sector small-scale and micro enterprises has risen dramatically in many developing countries (Charmes 1998; Chen et al 1999; Carr et al 2000; Standing 1999). Increasing numbers of female household members are compelled to accept jobs under precarious conditions to compensate for the decline in real wages.

Women also continue to be more vulnerable to poverty than men due to persistent gender inequalities in their control over property or earned income. A study of women farmers in Ghana by Date-Bah (1985), for example, shows how women's lack of access to credit and the generally poor system of public transportation have significantly impaired their earnings, and hence their means of survival. In Kenya, cattle and land assets, which women are excluded from inheriting or owning, are the main forms of capital accumulation that have provided access for men and effectively excluded women from access to credit, market opportunities and technological innovations (Ventura-Dias 1985). Resource allocation is often gender biased both within households and in state and market institutions, making it harder for women to transform their capabilities into incomes or wellbeing. Ethnographic, feminist and household-economics research has demonstrated that resources are unequally shared within families in many parts of the developing world.

The above discussion raises the question as to whether trade and financial policy reforms perpetuate, accentuate or erode existing gender inequalities. The answer is not immediately evident or measurable. Global trade and investment rules and accompanying national policy reforms affect not only the manner in which resources are allocated and production processes are organized; they also influence the institutions encompassing legal property rights, rules of behavior and norms. Changes in incomes and employment patterns have a major influence on the spheres of control and authority, access to and control over resources and decision-making roles among household members.

When cocoa was promoted as an export crop in Nigeria, it became a men's crop as well. The same is true for irrigated rice in Zambia. Other village-level studies in Nigeria, Nepal and India show that agricultural commercialization has reduced women's share in income (Lipton and Longhurst 1989; Moock 1986;

Ventura-Dias 1985).

Policy Coherence and Decent work

Women constitute the majority of the poor globally. There are many reasons for this –but what is clear is that no discussion of poverty eradication can be conducted without recognizing that gender equality is a pre-requisite for poverty eradication. At the Beijing Conference, the human rights of women were recognized for the first time. This constituted recognition that some human rights remain hidden from dominant discourse of the day- and need to be highlighted and acted upon. For example, violence against women in the domestic sphere was given new visibility. In similar ways, decent work serves also to give new voice to the excluded –to the recognition of their rights. But it also helps in the practical business of getting people out of poverty. It is not surprising that those key areas which we focus on in the Declaration are most likely to affect poor people –and are areas we have to address in tackling poverty.

Export expansion may have potential benefits in terms of higher growth, increased employment and improved women's welfare. But this calls for an understanding of existing structural inequities, which may undermine rather than enable sustainable human development. Unregulated import liberalization, for instance, has threatened the livelihood of women working in formerly protected areas of the domestic economy.

Increased food imports and dumping, coupled with increasing prices for farm inputs have left many female food producers worse off than they were in the early 1980s before structural adjustment. Although some rural women farmers who were integrated in village markets have managed to increase their incomes, others have not, particular those who could not afford to buy modern inputs such as fertilizer. Thus, even when new markets create opportunities, women are slow to take advantage of them, as they often lack access to credit.

Recommendation 1: Implement gender impact assessments of trade and financial Policies in governmental and international bodies

Rural women are especially affected by imports of subsidized food and price dumping, which have endangered local economies and threatened the livelihood of small-scale farmers, especially women, and the food security of poor households (Young and Hoppe 2003). Substantial reductions in subsidies and improved market access are key elements of a policy coherence that serves the goals of food security and poverty reduction. Another area where coherence is lacking is trade in primary commodities.

Developing countries, and especially Least Developed Countries (LDCs), are caught in a vicious cycle of heavy dependence on primary commodities, unstable and declining world prices for non oil primary commodities, low levels of export revenues, low import capacities and unsustainable external debt (United Nations 2004e). A key precondition for reducing extreme poverty in developing countries is to break this chain and to formulate trade and monetary/financial policies more strategically, that is, in ways more consistent with national priorities and development objectives (UNCTAD 2003: 14). Declining commodity prices, short-term price fluctuations and the dwindling share of primary producers in the value chain have had, as many studies show, serious negative impacts on women (see for a general discussion Ul Haque 2004).

Given the role of women in the reproduction process, these trends constitute a threat to food security as well. Enhancing policy coherence would therefore require closing an institutional gap in the current agendas of the WTO as well as the World Bank and the IMF that encourages commodity-based development and diversification (Ul Haque 2004, UNCTAD 2003: 9f). This can be accomplished by reestablishing gender-sensitive regional and national trade boards and supporting strategic planning initiatives of developing countries geared to more coordinated trade, domestic agricultural and industrial policies that ensure food security, poverty reduction and gender equality.

Recommendation 2: Address the commodity problem from a gender perspective

Although GATS has not yet been implemented, impact studies indicate that liberalization of the services sector has especially negative implications for poor women as customers or users of these services, and as workers (Young and Hoppe 2003). Accompanied by fiscal austerity and foreign investment measures embodied in loan conditionality and private-sector development strategies, GATS is likely to reduce access to social services thanks to its requirement of market-determined user fees. As water, utilities, healthcare, public transport and other public services become more expensive, poor women who lack the required purchasing power are likely to be marginalized and excluded. This will result in increased work burdens as women spend more labor time on survival and reproduction activities (ILO 1999; Young and Hoppe, 2003).

– The highest tariffs on industrial goods imposed by OECD countries affect products that are critical to the economic well being of developing countries – steel, textiles, clothing and leather. Relatively low-income consumers in OECD countries consume these products.
– The protection of intellectual property rights under WTO rules promotes research and innovation but it also restricts access to essential drugs and other knowledge intensive products and services in poor countries.
– Immigration restrictions are imposed for cultural reasons and to sustain domestic wages but they restrict increase remittances to developing countries and aggravate labor shortages in OECD countries faced by an unprecedented demographic transition.
– Fishing subsidies of OECD countries absorb $15–20 billion a year, benefit large companies more than poor fishing communities and deplete fish populations on which poor countries' coastal fisheries depend.
– Industrialized countries (home to 20 % of the world's population) account for 63 % of carbon dioxide that has accumulated in the atmosphere since 1900. Global warming will impose heavy costs on developing countries. Small island economies are especially vulnerable.
– A recent United States law that mandates counter-terrorism protection measures in ships and ports imposes heavy investment costs on poor countries that lack budgetary resources for basic social programs.

For now, we would like to leave you with 3 main messages:

1. Through the creation of the Norwegian Committee on Development, has taken a significant step to enhance our overall efforts to bring about an end to poverty. What is required now, is to ensure that the Committee is given the mandate to do its work, and that it is supported by a genuine political will to make a difference.
2. The African women's Network and its members will support all initiatives aimed at enhancing Norway's efforts in this regard. We will do this strongly and energetically, and we will do this on the basis of our experience, expertise and the support of efforts to eradicate poverty in Africa and more so feminized poverty.
3. The in general and the Committee in particular, has a crucial role to play, if this initiative is to succeed.

We thank you for the opportunity to set out our views on this important issue. And we wish you well in your work.

2 Sony Kapoor: Taking another view – Some recommendations for Coherence

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Part 1- Taking another view

Introduction

The OECD definition of coherent policy has a negative bias – i.e. ensuring that other policies do not undermine development and where possible supporting it instead. In fact most donor countries view this coherence as a burden that they try and comply with albeit it a cost to them.

The implicit assumption in such understanding is that the interests of the donors and developing countries are mostly in conflict and that the donor country will need to make economic sacrifices so as to have policies that do not undermine development.

This approach is wrong. While it is true that there will be instances where the interests of developing and donor countries will be in conflict, there are many more instances where the interests will be shared.

Beyond that, there are also several possibilities where the interests would be synergistic – i.e. where having a coherent development friendly policy will actually deliver significant benefits to the donor economy.

In my opinion the best way to approach the issue of a coherent development policy is to prioritize a discussion of issues in the following order

– Policies which are synergistic
– Policies where the interests are shared
– Policies where the interests are potentially in conflict

My recommendations to the coherence panel will focus mostly on the synergistic policies with a little bit of emphasis on those where the interests are shared. I am limited by constraints of space and time to only a few brief and hopefully helpful comments and suggestions.

Some relevant Norwegian Interests

Before it can be determined which policies can be synergistic or promote the shared interests of Norway and Developing countries, it is useful to have a quick look at what Norway's interests might be.

– Norway is a small country with less than 1 % of world GDP and a much smaller share of population
– In comparison with its size Norway has a reputation for disproportionately large influence in international affairs. This is linked to its reputation for
  - playing by the rules,
  - having created a largely fair and prosperous society
  - championing what are widely seen as fair and just causes
  - a principles-based approach to foreign affairs.
– Norway benefits from having this international niche in both tangible and intangible ways
– Norway, perhaps more than a number of other countries is exposed to
  - Problems with the international financial system because our $400 billion (and counting) Government Pension Fund – Global investments
  - Climate change with the potentially catastrophic consequences of any weakening of the Gulf Stream as well as other negative scenarios
  - Fluctuations in Oil & Gas prices and demand due to both their direct role in our economy as well as their indirect role in the form of our overreliance on economic linkages with the Oil & Gas industry such as through our exports of related technology and services
– This means that it is strongly in Norway's own interest that we actively
  - Push for a sustainable, transparent and stable international financial system
  - Push for an effective international deal to address climate change and contribute to it through financial and technological means
  - Diversify our economic dependence on oil & gas related industry and technology by

investing in environmentally friendly technologies

Some other relevant points

The Norwegian people, through several electoral cycles have clearly shown that amongst other things they care very strongly about

- Increasing Development through a development friendly policy
- Sustainable development and environmental friendliness both in Norway and abroad
- Corporate social responsibility
- The rule of law

Additionally Norway is characterized by

- A large number of big (partially or fully) owned state owned firms
- A generous welfare state financed by relatively high taxes
- A smallish number of Multinationals mostly in the areas of Oil & Gas, Extractive and Telecommunications

Some relevant interests of developing countries

While developing countries differ in many ways from each other, it is nonetheless clear that most of them have shared interests in a number of areas. Some of these are

- An interest in a fair, stable, transparent, equitable financial system with transparent, accurately recorded and well-governed financial flows to
  - Prevent Financial crisis
  - Tackle Capital flight
  - Reduce Tax evasion
  - Minimise Corruption
  - Stop Negative resource flows
  - Promote access to finance even for poor states and citizens
- An interest in urgently tackling climate change as it has now been well-established that developing countries are likely to suffer the effects of climate change disproportionately and they are financially ill- equipped to adapt. This can be promoted for example through investments in climate adaptation and climate mitigation technologies
- An interest in promoting fair international governance and the rule of law as other wise large rich state and non state actors can usurp power and potentially disrupt the stable international environment that is a pre-requisite to bring about development. Such governance is also essential to ensure that developing countries have a voice in shaping policies that affect them.
- An interest in maximising resources available for development especially through an enhanced capacity for
  - domestic resource mobilization (fair, equitable and progressive tax system),
  - domestic resource retention (plugging the leaks and debt cancellation),
  - domestic resource recovery (repatriation of stolen assets) and
  - domestic resource supplementation in the form of higher aid flows.
- An interest in promoting foreign investments especially of the kind that are
  - unconditional,
  - generate additional foreign exchange and/or tax revenue and
  - have significant spill-over benefits in terms of
    - technology transfer,
    - skills development,
    - knowledge creation and
    - integration with the local economy
- An interest in the discussion and promotion of global public goods and maximising their financing

Some synergistic / shared interests between Norway and Developing Countries – What should Norway do?

Based on the brief discussion above, I have chosen to focus on a few themes where Norwegian policies can result in win-win outcomes both for Norway and Developing countries.

- Highlighting and Tackling the lack of transparency in international finance and corporate structures. This lack of transparency results in
  - A more unstable and unpredictable financial system which harms both Norway and developing countries
  - A large amount of tax flight from both Norway and developing countries
  - A greater scope for corruption and crime where secrecy can be used to hide proceeds
  - Worse corporate governance where companies can hide both assets and liabilities from shareholders and authorities to a long term detrimental effect
- Promoting investments in clean technologies

- Which could help reduce the threat of climate change for Norway and developing countries
  - And be potentially very financially lucrative for Norway (and possible partner developing countries)
- Promoting investments in developing countries
  - Which can (under the right circumstances of technology transfer, a fair payment of taxes and integration with the local economy) make a very tangible contribution to development
  - Which can earn high returns of as much as 25 %-35 % per annum over the medium term
  - Which when combined with a strategic effort to make Norwegian investments more development friendly (which given that both the Pension fund and many firms are State owned, should be easier) can help develop a USP(unique selling proposition) or niche for Norwegian firms which can be a significant competitive advantage

In addition, there are a number of policies where very little additional effort on the part of the Norwegian Government can have a significantly greater development impact. Here developing countries win without Norway losing anything. In fact, Norway can also make significant reputational gains which help enhance its niche status in global affairs. Many of these policies can help developing countries and Norwegian development efforts achieve more «bang for the buck».

- Consistent with the efforts to reduce the lack of transparency in international finance and corporate structures (see above) which can help developing countries enhance
  - domestic resource mobilization (through fewer opportunities for tax avoidance and tax evasion by corporate and individual actors) and
  - domestic resource retention (through reducing opportunities for capital flight)

Norway needs to help focus international attention and its own technical assistance and illicit finance task force efforts towards the identification and repatriation of fled capital from developing countries. This can help generate significant (in the hundreds of billions of dollars at least) new development finance flows. Additionally, these efforts can also help identify and repatriate some of Norway's own domestic tax flight and hence provide a boost to the Norwegian fiscal situation.

- Global public goods which will benefit developing countries (and Norway) are heavily underfinanced. At the same time, there are sources of significant (global public) finance in the form of excess and underutilized capital at International financial institutions such as the International Monetary Fund (IMF) and World Bank (WB) amounting to as much as USD 100 billion. Norway should spearhead the international effort to allocate this money towards the provision of scarce global public goods and such an effort will produce significant positive outcomes for developing countries without any additional cost to Norway.
- Norway recently unilaterally cancelled some outstanding export credit debts for a group of developing countries admitting creditor co-responsibility for the fact that the loans had not had a development impact. This has set an important precedent internationally in the charged debate on «illegitimate or odious lending» and Norway needs to follow it up more proactively with the establishment of an international task force (modelled on the successful illicit finance task force) to take this work forward. This is really important for a number of reasons some of which are
  - Repayments on outstanding debts remains a major drain on the resources of many developing countries
  - A significant proportion of these outstanding debts may be of a dubious nature
  - It would be difficult and improper to get new lenders such as China to adopt responsible finance standards without simultaneously addressing historical imprudent lending for which many developing countries are still paying the price
  - In many cases capital flight has been the flip side of illegitimate lending and borrowing so this agenda fits in neatly with Norway's focus on Capital flight
  - In the absence of a more fair and systematic mechanism to tackle dubious debt, an increasing number of developing countries may resort to ad hoc mechanisms in the way that Argentina and Nigeria did. Its much better for everyone to deal with the important issues in a systematic way
  - An increasing number of developing country citizens and now Governments have been questioning the legitimacy of some of their debts and some such as Ecuador have set up debt audit Commissions. It would be useful to support these efforts

- There is a widely recognized lack of knowledge and understanding about the definition, scale and solutions for tackling past imprudent lending and a parallel lack of ideas for what should constitute Responsible lending. Convening a task force to discuss the issues at a technical and political level would be a highly worthwhile investment of resources

Norway's own lending record is relatively clear so this initiative has the potential to unlock significant development resources for developing countries without much significant cost to Norway. Besides, it can help build synergy with the capital flight work and help enhance Norway's reputation for fair play.

Part II – A brief discussion of some key issues

This is a background discussion of some of the key issues under consideration and is followed by some more detailed recommendations of what Norway should do in the various policy areas listed above in order to increase the coherence of its development policy.

The Government Pension Fund-Global
Background

The GPF is now worth close to $400 billion – the recent unexpectedly high price of oil has generated an excess windfall of as much as $100 billion. The two main sources of money flowing into the fund are

- Return on existing investments
- Revenues from sale of oil and gas

The future size of the GPF thus remains vulnerable to two major risk factors

- Low or negative returns on investments which are more likely if the financial system is unstable and corporate governance is bad (both of which are associated with a lack of transparency in international financial flows and corporate structures)
- A sharp fall in the price of oil or the demand for oil. This could happen
  - if a breakthrough clean technology is found or
  - there is global slowdown triggered by the current (or another future) financial crisis or
  - in the (unlikely) event of a strict global agreement on preventing climate change which severely limits the use of carbon dioxide emitting fuels

These risks need to be reduced and profits should be maximized. At the same time, as discussed above, it would be imprudent for Norway not to pursue goals such as tackling climate change and promoting development. This leads to a set of five possible goals which need to be kept in mind while managing GPF resources. These are

- Maximising profit
- Reducing risks
- Tackling climate change (if consistent with the above two goals)
- Promoting development (if consistent with the top two goals)
- Improve governance (if consistent with the top two goals)

Below are some nascent ideas on how to meet these goals

- I am aware of how difficult it is to achieve political consensus around how to use the GPF money so I suggest that in order to incorporate the last three additional goals, Norway can leave the main GPF fund untouched and apply the additional goals only to the Windfall portion of the fund to begin with. This should still be worth USD 50–100 billion. This portion of the fund should use a dual screening criteria – invest where both profitability as well as one of the other public policy goals listed above are met.
- Our economy and the GPF global are too dependent on oil and oil related technologies so there is an urgent need for diversification away from the oil and gas sector in order to reduce our risk.
- Besides divesting from oil and gas related investments, this should include making targeted investments into the development of clean energy technologies. This should include some venture capital type investments where the downside is known and limited and the upside unknown but potentially very high.
- In recent years, growth has shifted to the emerging markets. India and China, for example, have been growing at 8 %-10 % and direct investments in sub Saharan Africa have been generating annual returns of 25 %-35 %. Dedicating a significant chunk of the windfall fund to the emerging and developing markets has the potential to
  - Generate additional profitability

  - Diversify our overexposure to structurally similar OECD economies
  - Trigger positive development outcomes
- It is also of course possible to combine all these goals – for example by investing in the development of clean energy and other environmentally friendly technology parks in frontier developing economies with a equity sharing arrangements with the host country.
- It is imperative for the GPF to use its weight to help increase the transparency of international financial flows and improve financial and corporate governance. This will reduce the over all riskiness and volatility of the financial system from which both Norway and developing countries will benefit.

Moving beyond the ESG criteria

The ethical guidelines followed by the GPF are no doubt very important and send a clear signal. However, the ethical aspects of GPF investments can be approached from another perspective. This is presented below

Let us approach the question of ethics from the perspective of acting to make progress on three important aspects of the world around us – development, environment and governance. These represent some of the key challenges confronting the world today and also reflect the will of the Norwegian people (to whom the pension fund belongs) who strongly believe in

- Increasing development
- Tackling climate change
- Good governance and the rule of law

In fact, most policy makers would agree that the pursuit of these goals is further along the ethical spectrum than the current implementation of the ethical guidelines for the GPF investments.

The development of poor and emerging economies has the potential not just to improve the lives of hundreds of millions of people around the world but also save millions of lives which would otherwise be lost to hunger, disease and want. If the Pension fund could make even a small contribution to that – what could be more ethical?

Global warming is upon us with a vengeance. Other forms of environmental destruction and degradation are also catching up with our unsustainable lifestyles and at the rate at which things are getting worse saving money for our future generations might become increasingly futile as we will not leave them an inhabitable planet. If the Pension fund make a small contribution towards delaying doom or better somehow banishing it altogether – what could be more ethical than that?

The use of secretive jurisdictions, shell companies, trade mis-pricing, accounting shenanigans, payment of bribes and evasion of taxes damages the integrity of the financial system, increases the risks of financial crisis, makes corporations more susceptible to legal risks and reputation damage and undermines the rule of law. If the pension fund can even make a small dent in improving the governance of the system or of individual corporations it will have made a significant contribution to ethics as well as reduced the risks of the financial system to which it is heavily exposed.

I strongly believe that an active pursuit of these goals also has a large potential to

- Increase profitability
- Reduce risk through higher diversification
- Reduce risk through reducing the likelihood of financial meltdowns

Foreign Direct Investment – Enabling Development? Background

It is often highlighted that FDI can bring about positive development outcomes. This is indeed true, but with the caveat that this is not a foregone conclusion but can only happen under certain conditions.

Unfortunately, the caveat is often ignored and it is not unusual to see FDI represented as development finance pure and simple. It is this mischaracterization, which has been actively promoted by several major development actors who should know better, that has been partly responsible for developing countries trying to outdo each other in trying to maximise the volume of investments they attract.

This is at least partly responsible for the race to the bottom we sometimes see in

- tax concessions,
- labour,
- environmental
- and social standards

However, it is clear that all FDI and private capital flows do not contribute to financing for development or indeed development. Private capital flows are for profit transfers not gratuitous flows. This means that for the most part for every $100 million invested, $150 million (or more) would be taken out, perhaps over a period of a few years.

So over the medium term, the channel of private investment will turn from positive (when new investment comes in) to negative (when profits are taken out) and will not generate net positive financial flows. This has been observed over recent decades where the profits on existing investment in Sub Saharan Africa, for example, have in most years exceeded new investments coming in.

Portfolio investments, which are short term in nature, can generate additional problems of financial instability of the kind seen in recent emerging market crisis when this 'hot money investments' reversed sharply over a period not of months but days.

Even when money comes in and stays in, tax competition plus an ever growing use of trade, transfer and financial mis-pricing for tax evasion/avoidance by MNCs means that less and less of the money adds to domestic resources (tax revenues) which are critical for investments in health, education and development sectors.

Potential benefits of FDI

The main potential benefits of private investment lie then not in the money it brings in but in its indirect spill-overs. FDI has the potential to generate development benefits by bringing in

- new technologies
- managerial know how which can help upgrade local skills
- better social, environmental, gender equality and labour standards
- by creating decent work, well paid jobs
- through inter-linkages with the local economy
- and by paying taxes and royalties which the Government can then use to finance development

For the most part, this has not happened

Much FDI, in the extractive sector in particular,, does not generate many jobs, has little integration with the local economy, has limited technology spill-over and a potentially serious negative impact on the environment in particular. In addition, it has been observed that tax and royalty payments in the developing world are a fraction of what the equivalent amounts in the developed world are.

Pressure applied on developing countries though the WTO, IFI conditionality, investments treaties and regimes has meant that most performance requirements, where host Governments had the ability to make policy so as to maximise the development impact of FDI, are no longer allowed. The stringent intellectual rights regime, for example, has seriously harmed the ability of developing countries to use technology effectively.

Developing Countries are losing the regulatory power to require private investors to

- transfer technology
- hire and train local managers
- operate through joint ventures
- meet social, environmental, labour and gender standards
- use local content
- or meet export quotas etc

It was exactly by using policies such as these that countries all the way from the United States to Japan and Finland and Norway to Korea were able to harness private capital and private know-how to maximise development. These successful policies are now not available to developing countries – another symptom of their shrinking overall policy space.

It is essential to address these problems if developing countries are to benefit from the development potential of foreign direct investment.

To add to the problems, this limitation of spillover effects is accompanied by a continuing and sometimes increasing attempt by a number of MNCs to aggressively minimise tax and royalty payments both through tough negation tactics and the use of dubious practices such as transfer mispricing of goods and services. Many of the mechanisms used rely on the use of tax havens or non transparent corporate vehicles.

International actors such as UNCTAD have recognized this. There is a backlash against the direction FDI has taken in many countries such as Bolivia and Tanzania as their citizens and Governments realize that they are not getting a good development deal especially from investments in the extractive sector.

This has been part of the reason why, for example, countries from Africa to Latin America have, for example, started to renegotiate revenue sharing arrangements and tax regimes especially in the oil and gas sector.

Moving to transparency, enhanced responsibility and a competitive niche

Under such circumstances of suspicions of MNC motives and practices and the continuing lack of transparency in international financial flows, any move in the direction of enhanced corporate responsibility and increasing the transparency of international finance can both

- earn the trust of developing countries
- and improve the development outcomes of FDI

That is why Norway's efforts at increasing transparency in international financial flows (which is in consonance with Norway's interests as highlighted in a previous section) is critical

In addition, Norway can ensure that when Norwegian (Government and private) firms invest abroad in developing countries, they meet higher standards on technology transfer, tax and royalty payments, generating inter-linkages with the local economy, labour and environmental issues and the training of local staff.

While on surface such requirements may appear to put Norway at a competitive disadvantage, I believe that the truth is quite the opposite. In the changing paradigm where the benefits of FDI are being questioned and challenged, such actions can help Norwegian firms build a niche for 'more development friendly investments' which could potentially be a big advantage in getting access to the developing world. That is also where higher rates of return reside.

Facilitating Domestic Resource Mobilization Background

Domestic resource mobilization, which refers to a country mobilizing resources in house is the corner stone of any country's ability to achieve sustainable development. These resources are usually mobilized in one of three ways

- Through taxes – direct such as the income tax and indirect such as import tariffs
- Through royalties – mostly in the extractive sector
- Through domestic borrowing

Of these the first two are the most important as the borrowed money needs to be paid off and is not a new source of revenue. Thus taxation lies at the heart of the development process.

However, lack of transparency in international financial flows combined with the increased liberalization of trade and investments has resulted in a tremendous increase in the scope of capital and tax leakages. These losses are accentuated by the absence of effective international co-operation on tax.

The biggest channels for income and profit shifting by individuals and corporations are

- the mis-pricing of trade transactions in goods and especially in services.
- The mis-pricing of Intra corporate transactions between subsidiaries of MNCs, also called transfer mis-pricing
- The manipulation of cross border financial transactions such as loans, royalty payments is also a very serious problem as is mis-represented bank transfers of the kind which resulted in almost $70 billion going missing from the Russian central bank in the 1990s

The failure of Governments to exchange information on cross-border transactions especially as it relates to taxation allows, in fact encourages both domestic and international actors to engage in hundreds of billions of dollars of capital flight and cross-border tax evasion and tax avoidance.

While this is a serious problem for both developing and developed countries, lower administrative capacity means that these leakages are more serious for developing countries – where their effect of depressing tax revenues – and hence financing for development – makes a difference between life and death.

Moreover, capital flight and cross-border tax evasion are more pernicious than domestic tax evasion because the money and resources mostly leave the country permanently and hence do not even generate a positive multiplier effect in the economy.

The seriousness of these problems which are encouraged by the lack of international tax cooperation especially from developed country financial centres – results in an annual loss of at least $500 billion from developing countries in the form of capital flight and more than $100 billion of tax losses.

The race to the bottom on tax rates and on offering tax holidays and similar incentives to try attract investments is hampering developing countries accruing a fair share of their natural resource wealth.

Moreover this lack of transparency also contributes to higher levels of corruption and bribery at the same time as adding to the risk of financial instability both of which further undermine the interests of developing countries (and Norway).

All of these disturbing phenomenon which are severely hampering developing country efforts to mobilize resources domestically flourish due to

- the absence of transparency in cross-border financial flows
- the lack of effective exchange of information especially from developed countries
- the lack of a discussion and even awareness of the magnitude of these negative flows

Estimates show that developing countries have cumulatively lost as much as 4–5 trillion dollars through these channels and that much of this money is still illicitly stashed in financial centres. The 5–10 % of GDP of annual capital flight from countries such as South Africa and Cote d Ivorie must be stopped and tax leaks be plugged to create an international environment which allows developing countries to mobilize resources domestically.

Domestic Resource Mobilization can only happen in the context of Domestic Resource Retention

Additionally, the trillions of dollars which have already leaked out rightfully belong to developing countries and their peoples and must be brought back to help finance their development plans. While token efforts have now been made at recovering stolen assets under the UNCAC, these are far too narrow and we need a much more ambitious program of the identification and repatriation of these assets to the developing country of origin. These trillions of dollars are rightfully domestic resources so must be returned.

Effective Domestic resource mobilization, domestic resource retention and domestic resource recovery all go hand in hand and are the only way to achieve sustainable development.

The Illicit Finance Task Force and associated actions

That is why the work of the illicit finance task force led by Norway is so important and needs to be scaled up into a more ambitious international program.

The task force has the potential to

- raise the profile of a critical but underemphasized development issue
- built linkages between the interests of developing and developed countries (including Norway) which lose revenue to cross border capital flight
- emphasise the actions needed to enhance the transparency of international financial flows which will help
  - plug the leaks and facilitate domestic resource retention by developing countries
  - reduce tax flight from developed economies
  - reduce corruption by diminishing the opportunities for corrupt money to hide
  - tackle crime by exposing related financial flows
  - reduce financial instability by giving regulators a more complete picture of what is going on in the world of finance

Part III – Some more Policy Suggestions

In order to meet the synergistic and shared interests discussed in the first section and elaborated in the next section, Norwegian Policy would need to be tinkered with in the following areas

- Norwegian foreign and development policy
- The way the GPF-Global is run
- Norwegian environmental policy
- Norway's investment policy

On promoting transparency in international finance

Norway should

- Actively advocate for the elimination of bank secrecy, shell companies and promote international co-operation and exchange of information on tax matters through every relevant fora including the UN, WB, IMF, OECD etc – especially through the ongoing FFD discussions
- Champion putting the development aspect of this issue on the international agenda through a deepening and broadening of the work of the illicit finance task force – any reduction in secrecy and increase in transparency will be synergistically beneficial to both Norway and developing countries
- Use active governance in its oil fund investments to push for a mininimization or elimination of tax havens, use of shell companies and aggressive tax planning practices. A full disclosure policy of the corporate structure, tax strategy, use of tax shelters should be actively pursued for all investments
- Use this same policy for all partially and fully owned Government firms (SOEs)
- Encourage a public procurement policy which is consistent with these principles
- Actively lobby for the adoption of the new proposed country by country reporting standard and proactively start reporting on this basis for all SOEs and push for the same through oil fund investments
- Be vocal about the problem and its own efforts at addressing these including through the promotion of CSR standards which include responsible tax and transparency policies
- Actively promote the understanding and publicity of the links between financial instability, corruption, tax evasion, development problems, erosion of the welfare state which result of lack of transparency in international finance and lack of co-ordination on tax matters

Norway should also

- Analyse its trade data (which is collected by customs) and inform developing countries of suspicious capital flight related transactions
- Check its banks to see if unauthorized fled capital from developing counties might be deposited with them

On tackling climate change and promoting environmental friendliness

Norway should

- Invest heavily in developing technology parks for clean technology both through the oil fund and Norfund – it should both for the purpose of enhancing economic efficiency and promoting development direct these investments to developing countries but keep an equity stake to share the fruits of success (venture capital plus)
- Actively seek to diversify oil fund investments away from oil and gas firms towards alternative energy resource development firms
- Only buy Certified Emissions Reductions (under CDM) from Least Developed Counties after verifying a positive development potential
- Seek to develop other innovative financial and technological ideas in collaboration with think tanks, researchers and other Governments
- Seek to maximise technological spill-overs especially for clean technologies

Norway should also

- Share its portfolio of clean technologies with developing countries at heavy discounts
- Promote its own experience with carbon taxes and other environmentally friendly policies

On tackling illegitimate debt

Norway should

- Institute a new task force on 'tackling illegitimate debt and promoting responsible lending' which can be loosely modelled on its illicit finance task force.
- Ensure this task force convenes regularly and comprises all relevant stakeholders including experts, developed and developing countries, civil society and multilateral organizations
- Promote work on clarifying concepts, auditing debts, identifying stolen assets (together with the illicit finance task force) and reaching consensus on responsible lending standards
- Support the work of relevant developing country initiatives such as the debt audit Commission set up by Ecuador through providing technical assistance

Norway should also

- Audit all its loans to developing countries and cancel those found to fall short of responsible standards

On financing the provision of global public goods

Norway should

- Work with a coalition of like minded donor countries to promote a more efficient use of the underutilized capital and resources of the IBRD and regional development banks. This can free up as much as $20 billion which should be used to seed a fund (or funds) dedicated to the provision of global public goods and administered by the United Nations or one of its agencies such as the UNDP
- Actively try and push for a sale of all (of most) of IMF gold and channel receipts (which can be as much as $80 billion) towards seeding a fund to provide global public goods or to provide a bulwark against financial and commodity price volatility for the least developed countries

Norway should also

- Commit to making financial contributions to such a global public goods (or global volatility reduction) fund so as to enhance the credibility of its proposals to use excess multilateral resources for this purpose

On promoting FDI development friendliness and better MNC behaviour

Norway should

- Make an international push for preferably (binding) codes of conduct for foreign direct investments in developing countries to adhere to better standards, higher technology and skills transfer, better integration with the local economy and a higher payment of taxes and royalties

Norway should also

- Make a push for both its state owned enterprises as well as private firms to make clear public commitments to such behaviour. This is likely to become a competitive edge in the prevailing climate

3 Pamela K. Mbabazi: Contribution to the Coherence Policy Debate from a Ugandan Perspective

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Uganda is a small, poor and donor dependent open economy. It is driven by a nascent and fragile private sector. The public sector is largely inefficient, the financial system is shallow and fragile, the tax base is very narrow, the payments and settlement systems among others are inefficient, in short there is a pervasive market failure. In addition, consumer protection is largely absent, law and contract enforcement is weak and appropriate regulation among others is lacking.

Africa in general and Uganda in particular needs peace, good governance, fair-trade relations that are conducive to development, market access that is as free as possible for its products, sustainable investment, sustainable use of energy resources and work and jobs for its people in order to experience sustainable economic and social growth. This can only be achieved through a long-term strong all-embracing partnership with its development partners especially Norway. A joint Uganda-Norway strategy in dealing with some of the above could be the answer to this.

If Development Cooperation is to contribute to the elimination of poverty, then it must include policies that will promote the structural transformation of developing countries so that they produce more value-added goods and relatively fewer basic commodities, among other things. Northern Countries including Norway need to fully understand the production and trade challenges facing African countries and collaboratively design policies that will mitigate these and ultimately promote poverty alleviation.

In my view, one of the major setbacks holding back the progress of developing nations is shortage of skilled manpower around which many of the other factors revolve. Even if the best policies are devised, nothing will come to bare as long as the personnel to implement these policies are not there or in short supply. Developing countries need more money to create and maintain a skilled workforce.

On the one hand, Universities have been neglected and not enough quality research and generation of knowledge is going on in the higher institutions of learning. As a result the quality of the human resource being produced on the continent leaves a lot to be desired. Even more problematic is the fact that salaries especially for most civil servants are terribly low across most countries in Africa. If African countries are not able to pay adequate salaries to their professionals, the brain drain caused by qualified people emigrating will perpetuate hardship and poverty irrespective of the kinds of policies put in place. The situation is being exacerbated by population growth. Uganda's fertility figures for instance stand at 7.3 which is way above the continental average. Most qualified people of late, have tended to move abroad to take up better paid positions. Norway's development policies and strategies therefore need to be directed towards helping to resolve this problem. One of the major weaknesses in past donor policies have been that not enough money is allocated to pay skilled local workers.

Development cooperation is most effective when the recipient countries decide for themselves how to use the funds they receive. Consequently, there is much to be said for the idea of providing official development assistance (ODA) in the form of general and sectoral budget support, so as to encourage the successful implementation of national poverty reduction strategies.

Uganda has already seen some positive results where basic health and education services have been expanded by direct support to the national budget rather than having assistance tied to specific projects or budgetary items. Donors including the Norwegian Government should grant budget support of this kind for longer periods of time than they have in the past.

The Issue of HIV/AIDS is also still a very urgent one on the continent and must be included in the priority action areas. Norway's policies should be directed towards meeting new challenges in the fight against AIDS and in particular towards protecting women who are falling victim to the pandemic in increasing numbers still, especially in Southern Africa.

Trade policy needs to be used in a more focused way to serve the interests of effective poverty reduction and sustainable economic development. Norway should use its unique position and stature in Europe to push harder for favorable terms of trade for African Countries. There is need to protect the highly sensitive sectors in African Countries that are highly relevant for development.

In order to gradually develop coherent policies with the developing world, more intensive exchange of information is needed to ensure better planning and coordination.

The OECD defines Policy coherence as the systematic promotion of mutually reinforcing policy actions across Government departments and agencies creating synergies towards achieving agreed objectives[1]. This essentially means that OECD member states in pursuing domestic policy objectives in areas such as trade, agriculture, the environment or migration, should aim at avoiding negative consequences which would adversely affect the development prospects of poor countries. In reality however, the reverse is true. Many EU countries for example, provide development aid under the guise of improving the ability of African countries to engage in trade while at the same time maintain trade barriers that keep the developing country's goods out. There is greater need for development coherence in OECD Governments' policy stances to enable the benefits of globalization to be more equitably distributed and shared.

The policy coherence argument tries to advocate for taking into consideration the interests of developing countries in policy making. However, as many critiques have noted, Coherence has always been and will continue to be a function of competing and conflicting interests and values. Unless Donor countries become more ethical and realise that they cannot continue building their progress on the retrogression of other countries, policy coherence will take long to become a reality.

Yet, the need for action in promoting policy coherence is more urgent today than ever before, especially given the increasing challenges of the widening gap between the rich and poor which is becoming politically unacceptable. There is need to urgently create the global partnership for development called for in MDG8. The responsibility for policy coherence cannot only fall on developing countries but has to be done in partnership. Among other things, pressure needs to be put on securing market access for those goods and services in which developing countries have a comparative advantage and where the greatest gains can be realised. Norway needs to seize all opportunities to influence and improve policies impacting developing countries whenever possible.

Some of the key areas to focus on for policy coherence include but are not restricted to the following:

1. Agriculture: For developing countries, agriculture is a major source of income and potential poverty alleviation. Norway needs to among other things, support more research in the developing world to understand how trade liberalisation can make the primary producers winners and not losers. There is need to understand better the barriers along most of the commodity chains especially for products in which developing countries have a comparative advantage, like cotton, rice and sugar, and which are among the most protected products in developed markets. Deeper understanding is also required of the implications of policy reforms on different groups of countries, be it through preferential trading arrangements or multilateral liberalisation efforts. Food aid, export support, and anti-dumping actions require in-depth empirical research by both local and foreign researchers in partnership.

   Trade policy: High tariffs and tariff escalation persist for goods like textiles, clothing, footwear, and some processed products, which are deemed sensitive in OECD countries and in which developing countries have a comparative advantage. Non-tariff barriers impose significant costs on developing countries, yet factual information about their magnitude and economic costs is scarce, preventing pro-active multilateral rule setting and remedial action by developing countries and donors. More needs to be known about the effects of anti-dumping provisions applied as a protective measure for domestic industries.
2. Promoting Investment, Knowledge and technology transfer: Access to products of the knowledge-based economy, as well as effective transfer of technologies and information, are key determinants for growth in developing as well as developed countries. More coherent policies to promote this are needed.

There is, undoubtedly, an urgent need to harmonize global policies which can strengthen the capacity of Developing Countries to among other things, provide a conducive environment for the rejuvenation of their economies and slowly bring about progress. This calls for not just policy coherence but perhaps also policy integration.

Selected References:

– Improving Policy Coherence for Sustainable Development: A Checklist, available at: *www.oecd.org/publications/Pol_brief*
– The Development Dimension or Disillusion? Nordiska Africaninstitutet, Policy Notes, October 2007

1. www.oecd.org/development/policycoherence

4 Yash Tandon: The Issue of Coherence: its Relevance and Significance from the Perspective of the South

By:
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31 May 2008

This brief report is in response to the request made by the Chairman of the Norwegian Government's Committee on Coherence in Development Policy in his letter of 24 April 2008, for advice «on which policy areas that are most crucial from your point of view and on what Norway should prioritize politically in national and international policy arenas.»

There are in my view *three immediate priority areas* that the Committee might consider: Aid, Trade and Investments. There is the issue of climate change, but that is a slightly longer term issue. There are also other policy areas that can give rise to development incoherence such as political/security issues being reflected in multilateral/bilateral relations, and multilateral governance architectural issues, or incoherence arising out of special foreign policy interests of Norway. However, given the nature of the brief I will focus on the above three areas that, in my view, are of immediate and urgent importance.

Before I come to these, I would like to point out that my perspective is different from OECD's definition of «coherence» which the Committee takes as the basis of its work. It is, as quoted to me in the above letter:

> *«A coherent policy for development will ensure that the development policy goals are not undermined by Government policy in other areas and that these other policy areas support development goals whenever possible.»*

The above definition deals only with one aspect of coherence/incoherence. The challenge of trying to achieve «coherence» is often understood as arising out of different goals and objectives pursued by different Government Departments internally within donor countries. For example, the Defense Department may have very different objectives from the Trade or Development Department of Government. That may well be the case.

This report focuses, rather, on *how incoherence arises at the receiving end* of donor policies on aid, trade, and investments.

From my long experience working in Africa, and from working over the last three years as the Executive Director of the South Centre in the context of negotiations in the World Trade Organisation (WTO), the World Intellectual Property Organisation (WIPO), the UNCTAD, the World Health Organisation (WHO), the International Labour Organisation (ILO), among other IGOs based in Geneva, and the European Union in Brussels and the OEDC in Paris, I would say that there are really *two sources of incoherence* in the developed industrialized countries' attempts to address issues of development and poverty in the countries of the South.

1. Incoherence arising out of *conceptual* (mis)understanding of development; and
2. Incoherence arising out of *practice at variance with* stated «development» policy *objectives* and means to development set out by OECD countries.

The second problem I will illustrate with reference to the three areas of aid, trade, and investments. But the first is a more serious problem than the second. It arises out of the misconception that «development» in the South should follow the same route and adopt the same institutions of governance that the North used in its own development path; that the North has the *«responsibility»* for the development of the south; and that following from this the *«right» to intervene* in the affairs of the south on matters related, especially to *setting norms* and their application, among others, to human rights, health standards, child welfare, the building of democratic institutions of governance, and so on. Some of these are indeed *internationally agreed responsibilities and norms* to which countries of both the North and the South have subscribed (for example, the common but differentiated responsibility on climate change). But often during the process of negotiations on these norms and their application, countries in the South (especially aid-dependent weaker ones in Africa and the LDCs) are compelled to accept the interpretation and application of these by the North.

Such forced (real or perceived) interpretations and applications of norms on the part of the North, might well «be paved with good intentions», but they often backfire, and produce quite opposite results from those intended. The industrialized countries are then frustrated at the results (e.g. in Darfur, Iran, Zimbabwe, Myanmar, Korea, etc), and often wonder why, for example, China would not put pressure on Governments in Myanmar or in the Sudan (in the way that the North desires), or

South Africa in Zimbabwe (again in the way the North desires). Frustration also arises because North cannot measure the South's development by standards set by the North. These frustrations of the North are understandable, especially in the case of those countries in the North (and here I would single out the «non-imperialist» Nordic countries) who put much effort and goodwill into creating a «better world». Unfortunately, it is so very difficult for the North to fully appreciate that *it is not their responsibility to develop the South*, and that the countries of the South are all at different level and pace of development and they must each follow their own path to development, no matter how much time and pain it takes.

Let me come now to the three areas.

1. Aid

On matters related to aid, the lessons of the past *may have* finally dawned on the OECD. It has addressed some of the issues in its so-called «Paris Declaration» on «Aid Effectiveness» (PDAE). Implicitly the PDAE recognises that the present global architecture of «development cooperation», dominated as it is by the World Bank, the IMF, the Paris Consortium and the donors, suffers from democratic deficiency. It sets out, in my view, reasonably sensible principles on aid effectiveness – namely, ownership, alignment, harmonisation, managing for results, and mutual accountability. By mid-December 2007, 115 countries are listed in the OECD website as having endorsed the declaration.

The difficulty arises in the *process* by which the PDAE is being shepherded by the OECD, poor understanding of power and linkages to self serving policies and interests, and in the *practical application* of these principles. I have studied this matter carefully, and have several papers on the subject (attached is a brief summary comparison of PDAE and SCAE – which stands for South Centre Aid Exit strategy). For the purpose of this brief, let me summarise a few critical problems with the PDAE.

First, the UN was initially excluded from the system and then, belatedly, brought in, through the Development Cooperation Forum (DCF) of the UN to give it credibility. The UN was not involved in it from the start and lacks any leverage to promote its priorities into the PDAE. For example, the ILO's internationally recognised concept of «decent work» does not appear as one of the objectives in aid evaluation. Also many of the MDG related objectives do not feature into the performance criteria, especially MDG 8 that deals with North-South relations.

Second: the *performance conditionalities* are prepared by donors in conjunction with the World Bank. There is *no real mutual accountability*. For example, if the «recipient» countries do not perform, they are subject to penalties in the form of reductions or withholding of aid disbursements as well as tighter conditionalities. However, if the «donor» countries do not perform, or worse, misperform in the sense of implementing policies that may actually undermine the development or policy space of aid recipients, there are no penalties.

Third: the compliance tests are administered by the Word Bank (on for example procurement) that do not use the economic and social policies of the «recipient» countries. These are externally imposed tests based on World Bank-devised procurement assessment methodology focused, essentially, on ensuring that foreign firms can compete with domestic firms for Government contracts.

The OECD hopes to get the PDAE endorsed by a High Level Ministerial conference in September 2008 in Accra, under the so-called Accra Action Agenda (Triple A). And indeed, because of the «aid dependence» of many countries in Africa (especially when the matter is being discussed in an African city), the OECD may well get the endorsement it is seeking.

But that, in my view, would be short-sighted. The effort, especially to bring the IMF and the World Bank through the back door, will backfire. I fear that over time, when African countries realise what is happening, there would be a strong reaction. (I would be happy to send you more documents on this issue).

2. Trade

For lack of space, I would refer you simply to the recent Report by Jan Ziegler, the UN Special Rapporteur on Right to Food (A/HRC/7/5). Many of his observations and conclusions reflect our own findings at the South Centre. But since he is part of the UN system, it is better to quote him. Among other very important findings, he points out that Western subsidized food dumped in African market and subsidized US maize under NAFTA has displaced 15 million Mexican farmers. He also says that his two missions to Niger showed that the market-based paradigm of development, largely imposed by the IMF and the World Bank, has been harmful to food security for the most vulnerable. Cost-recovery policies in health centres, for instance, mean that many poor children are *not* being treated for malnutrition. The privatization of Government support services, including the logistics and food distribution system (OPVN) and the National Veterinary Office has exacerbated food insecurity amongst small-scale farmers and pastoralists.

He points to what he calls «schizophrenia» in the United Nations system and in States' policies, as well as the increasing control of vast sectors of the world economy by transnational corporations. He says that the policies and practices of agencies such as the IMF, and the World Bank, along with the US Government and the WTO, undermine peoples' right to food through imposing on the most vulnerable States the «Washington Consensus» emphasizing liberalization, deregulation, privatization and the compression of State domestic budgets, a model which in many cases produces greater inequalities.

He argues that while states have recognized the right to food in the World Food Summit Declarations and more than 150 States are parties to the International Covenant on Economic, Social and Cultural Rights (ICESCR), at the same time, they engage in trade policies that are detrimental to the enjoyment of human rights in other countries.

I could have elaborated on these from my own practical experience in Africa.

There is, however, one issue to which I must draw your attention. Although Norway is not a member of the EU, but since Norway does operate in the European context, I might add that the Economic Partnership Agreements (EPAs) currently being negotiated between the EU and the African, Caribbean and Pacific (ACP) countries would, if signed in June this year (as it seems), would (and I choose might word carefully) *undermine* development of the ACP countries. The latter are caught up in a situation in which the European Commission has led them to believe that they have no options but to sign on the dotted lines. Our study in the South Centre shows that the countries do have real options, but these countries are under pressure to sign.

Investments

On 7 April this year I was invited by Honorable Agot Valle, MP, to address a Parliamentary workshop on Norway's Draft Model Bilateral Investment Treaty (BIT), and to make some comments on it. I had then suggested that the Draft Model, in my view, should be scrutinized very carefully before it is passed by the Norwegian parliament. I was informed that the context of the BIT was the need to maintain Norwegian (and EFTA) industrial and commercial competitiveness in relation to what the EU receives or perceived to receive from the developing countries. If this is so, then this should be clearly stated, and understood as part of Norway's commercial policy and must not be «marketed» as its «development» policy. From a developmental perspective, the BIT will have serious negative consequences for countries in the South that would sign the Norwegian BIT.

I am aware that the UNCTAD also commented on the Norwegian Model BIT, and among other things has suggested it has gone beyond TRIMS. We at the South Centre, taking a specifically southern perspective, made our own analysis and this is the conclusion we have reached:

> «The Norwegian Model BIT may have the potential to diminish the development policy space of developing countries that might wish to sign the BIT with Norway.
>
> It reflects the standard BIT objectives of promoting and protecting investments overseas. Should Norway agree on a BIT with a developing country, the potential is high that what would be promoted and protected effectively would be Norwegian investments into the developing country rather than vice-versa as a result of the greater investment capacity and economic strength of Norwegian companies as compared to their developing country counterparts.
>
> The model BIT, unless substantially changed, could have the effect of locking in Norway's developing country treaty partners into a relationship of economic inequality and dependence – akin to a new form of colonialism – vis-à-vis Norway, as the BIT's provisions could prevent the developing country partners from engaging in more active industrial development policy that might require at various stages certain levels of discriminatory treatment against foreign investors in order to develop and to create more competitive domestic industries.
>
> Furthermore, it envisions an architecture that establishes equal levels of treaty obligations on both Norway and its developing country partners. There is no provision at all in the model BIT that provides for special and differential treatment for the developing country partner in terms of the level or extent of obligations to investors and investments, thereby disregarding the fact that the economic development status of many developing countries may make it more difficult for them to comply with the BIT's obligations.»

In conclusion, allow me to emphasise three points:

1. If Norway provides aid and engages in trade and investments in the South for its own commercial or foreign policy or strategic reasons, then this is perfectly well understood, and it should say so openly and transparently. But this should not be confused with «development assistance». It is more honest to call a spade a spade rather than a shovel.
2. Whilst recognising that there are indeed «common but differentiated» responsibilities countries have towards, for example, the protection of «global commons», including international conventions, it must be stated emphatically that development is nationally self-owned and self-determined. It is part of the *«national project»* of each country. Norwegian or any other country's «development coherence» in relation to the South can only by assessed by the extent to which the South becomes more self-reliant in owning its development process.
3. The biggest support that the North can give to the South is to unconditionally help build the institutions of the South to *«think for themselves»* through supporting genuine knowledge-based and knowledge-creating bodies of the South that are not simply replicas of the think tanks of the North.

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