

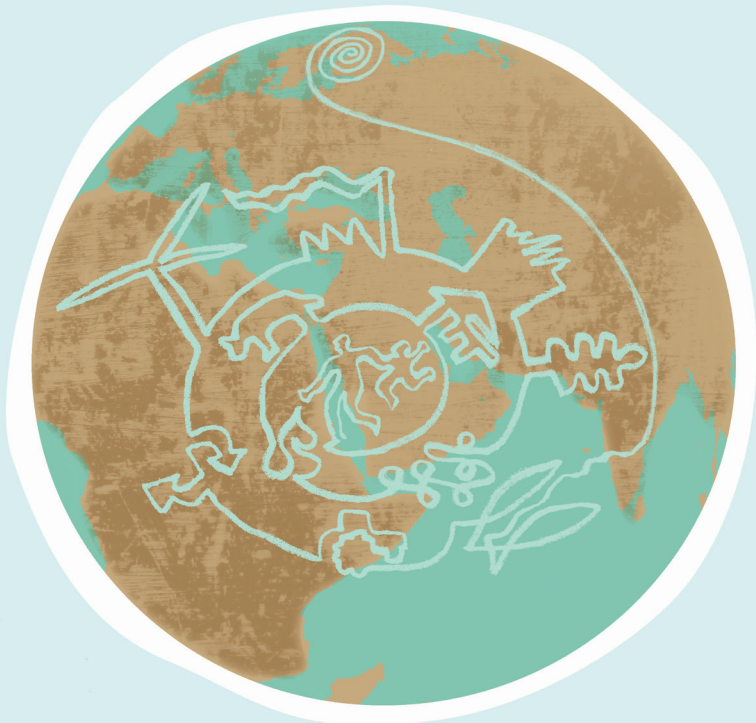


NORWEGIAN MINISTRY
OF FOREIGN AFFAIRS

Meld. St. 35 (2014–2015) Report to the Storting (white paper) Summary

Working together:

Private sector development in Norwegian development cooperation



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Summary

1 Strengthened and strategically targeted support

The goal of Norwegian development policy is to contribute to democratisation and the realisation of human rights and to help people work



Figure 1.1 India. A child plays with new technology while her mother works in the background.

Photo: Nitai Mondal

their way out of poverty. Private sector development and sustainable economic growth are essential for achieving this goal. According to the World Bank, nothing drives poverty reduction as much as access to good, steady jobs and living wages. Increased workforce participation leads to better living conditions, economic growth, and higher levels of productivity and social integration. It helps people develop skills, strengthens the position of women, and has a stabilising effect on society as a whole.

Value creation in the private sector also generates tax revenues that can be used to fund improvements in infrastructure and services in areas such as health and education. This is highly significant for reducing aid dependency. The private sector is the main driver of development: nine out of ten jobs in developing countries are in the private sector.

In this white paper, the Government sets out its intention to provide strengthened and strategically targeted support for private sector development in developing countries. The Government will tailor its efforts to meet the different needs and challenges of the recipient countries. In promoting private sector development, the Government will seek to strengthen its cooperation with the private sector and knowledge institutions, with particular emphasis on areas in which Norway has a competitive advantage. A substantial share of the support provided by Norway will still be channelled through multilateral institutions, funds and programmes. The white paper endorses the work to develop the new UN sustainable development goals and the international dialogue relating to Financing for Development; processes that take an integrated approach to achieving sustainable and lasting growth.

Figure 1.2 illustrates how Norway's efforts are to have an impact at three levels: the private sector level, the national level and the global and regional level. It also shows what the goals for Norway's efforts are, and what measures we will use. Although not all of the measures listed have private sector development in developing countries as an explicit goal, they can have positive development effects and help to reduce poverty through increased investments.

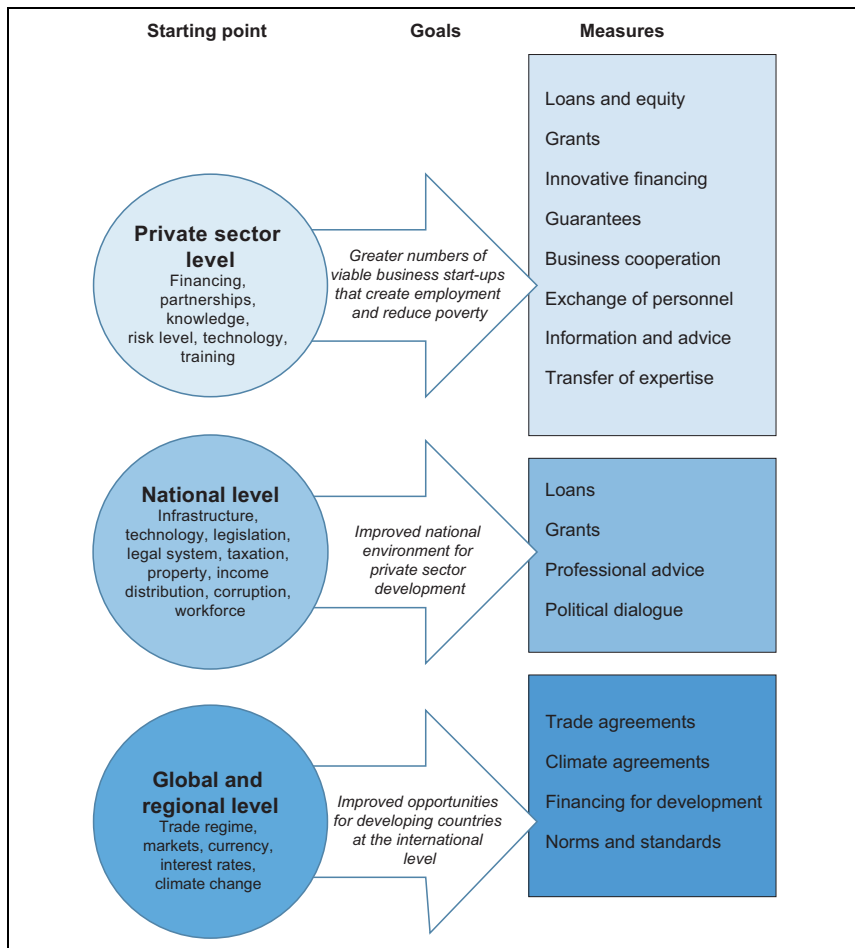


Figure 1.2 Strategic framework for Norway’s efforts to promote private sector development

1.1 Effective aid as a catalyst

Today, aid is far less important for development in poor countries than it used to be, although there are great variations between regions and

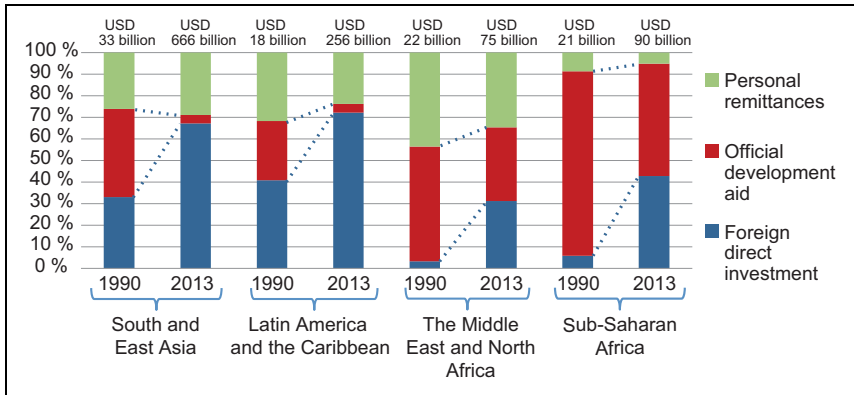


Figure 1.3 ODA levels, personal remittances and foreign direct investments, by region (1990–2013)

Source: World Development Indicators (World Bank, 2014)

between countries in the same region. In recent decades there has been a significant increase in financing from other sources. In 1990, aid accounted for 63 % of all capital flows to low income countries and lower middle income countries. By 2013, this figure had been reduced to 21 %. This is a positive trend. The Norwegian private sector's investments in developing countries have also increased substantially over the last decade. Today, many developing countries have a political goal of attracting increased investment and becoming independent of aid.

Support for private sector development is an important component of Norwegian aid. In 2014, Norway provided a total of NOK 3.6 billion to the most relevant sectors and areas for private sector development.¹

However, intensifying Norway's efforts to promote private sector development is not just a matter of increasing the financial contribu-

¹ This does not include the NOK 7.54 billion allocated for core funding to multilateral organisations in 2014, of which an unspecified amount was relevant for private sector development.

tion. Deciding *who* we are to cooperate with, *where* and *how* is equally important. Aid should be used strategically to maximise the development impact. It should be used in situations where it can yield added value, i.e., bring about a result that would not have been possible without it. Used in the right way, aid can act as a catalyst, mobilising resources from other sources that would not otherwise have been made available.

One important strategic consideration concerns the choice of channels and partners in Norway's development cooperation. What should Norway do bilaterally? And what can we do more effectively by working through multilateral institutions, funds and programmes? We must make good use of our own strengths where possible, while recognising others' strengths in other situations.

In order to achieve maximum development impact, it is important that aid triggers other investments and initiatives. The Government therefore intends to intensify its cooperation with the private sector.

Creating an enabling environment for the private sector is one of the most important ways to promote private sector development. Much of Norway's work in this area will therefore focus on this. Targeted efforts are needed to address the challenges involved, and the importance of an enabling environment should also be emphasised in the political dialogue. It is essential that the international community supports this effort and seeks to facilitate private sector development through concrete measures and an improved global environment for business. However, the authorities of the developing countries concerned have the main responsibility for solving the challenges at the national level, and are in the best position to do so.

2 Global changes

In 2014, growth rates in traditional developed countries averaged around 2 %, while the corresponding figure for emerging economies was 4.8 %. According to the World Bank, this trend is set to continue. In 2010, non-OECD countries' share in world GDP surpassed that of OECD countries for the first time.

Many of the countries in East and Southeast Asia have experienced strong economic growth in recent decades. A number of them have specialised their production in order to participate in global value chains. The same is true for several countries in Latin America. South Asia and sub-Saharan Africa have lagged behind, but this is beginning to change. Over the past 25 years, the proportion of people living in extreme poverty has been more than halved. Altogether, 700 million people have risen above the extreme poverty threshold. This is primarily due to economic growth.

Economic growth has been particularly strong in China, and to some extent in India, and it has had a major impact on the economies of other countries. Growing demand for natural resources has contributed to increased growth in many African countries, especially following major discoveries of coal, oil and gas. But investments in infrastructure, agriculture and tourism have also been important for this growth. On average, the countries of sub-Saharan Africa have experienced an annual economic growth rate of 5.1 % since 2000, while the value of exports from African countries has quadrupled. Several of the world's fastest growing economies are now in Africa.

Although there are signs of industrial growth and renewal of the industrial structure in some African countries, these tendencies are not yet very pronounced. This suggests that increased investments alone are not enough to ensure private sector development that raises employment levels and creates more productive jobs. At the same time, there is a need to intensify efforts to ensure that nothing hinders



Figure 2.1 Senegal. Container terminal in Dakar.

Photo: PIDG/Emerging Africa Infrastructure Fund

the benefits of economic growth from being spread so that they can boost more of the economy in the country concerned.

One of the main challenges will be to build on the favourable trends and ensure that they continue in the years ahead. In order to succeed in this, the private sector needs to become more diversified and integrated into the global economy. Access to modern information and communication services that allow these countries to participate in the global information economy will be crucial. In addition, the private sector must contribute to the transition to a green economy.

In parallel with economic growth, the disparities within many countries have increased. It is crucial that economic growth contributes to job creation and decent working conditions, so that as many people as possible can benefit from it. Even if economic growth contin-

ues at the present rate, it may be impossible to achieve the goal of eradicating extreme poverty by 2030 unless there is more equitable income distribution. Economic growth needs to go hand in hand with policies that ensure equitable distribution and that safeguard other key development concerns.

Continued progress depends to a great extent on higher education and training, well-functioning markets for finance, goods and labour, the ability to take advantage of technology, the capacity to adapt for a green economy, and access to important markets both at home and abroad.

2.1 An enabling environment and cross-cutting themes

A number of themes that are important for private sector development are not linked to specific sectors, but are cross-cutting in nature. At



Figure 2.2 Mozambique. Both technology and knowledge development are needed for this titanium minerals mine in Moma.

Photo: PIDG/Emerging Africa Infrastructure Fund

the national level, an enabling environment for the private sector requires good governance, resource management and basic infrastructure. In many developing countries, these issues constitute major challenges. Another difficulty, particularly for small-scale enterprises in the informal sector, is lack of access to financial services. Moreover, it is important for the private sector that a well-functioning tax system is in place to provide predictability and revenues to improve the business environment, through investments in economic and social development. Taxation is important for maintaining economic growth over time and stimulating employment.

3 Geographical focus, sectors and partners

Perhaps more than in any other area of aid, support for private sector development raises difficult questions about geographical priorities. It is natural to start in some of the countries with which Norway already has extensive, long-term development cooperation: Ethiopia, Malawi, Mozambique, Myanmar, Nepal and Tanzania. In these countries, Norway's efforts increasingly focus on good governance, inclusive and sustainable economic growth, and resource and revenue management.

At the same time, it is important to give priority to cooperation with countries that have a genuine desire to facilitate private sector development by providing a good environment for business. Unless countries show a willingness to do this, it is unlikely that aid will yield lasting results that are commensurate with the amount of support provided. If Norway's dialogue with – or the practical follow-up of its cooperation with – a country reveals that the authorities in reality are not interested in addressing the challenges experienced by the private sector, this must have consequences for Norway's cooperation with the country concerned.

The Government will consider the potential for scaling up its cooperation with selected countries in West Africa. In line with the Government's stated intention to reduce the number of countries that receive aid from Norway, efforts will as a rule be limited to the list of 85 partner countries.

In some contexts, it will be natural to view efforts to promote private sector development in a regional perspective. There may be links between neighbouring countries or between countries within regions in certain areas, such as trade, value chains, infrastructure and institutional frameworks. In such cases, aid must be used to promote private sector development across borders by working together with the countries concerned, often by promoting South–South cooperation.

3.1 Priority sectors

Norway's efforts to promote private sector development will cover a range of different sectors, especially if funding provided through the multilateral system is included. In the area of bilateral aid, efforts will be focused on sectors in which Norway has particular expertise.

In its business-oriented cooperation with developing countries, the Government will give special priority to the energy, ICT, agriculture, fish/marine resources and maritime sectors. Priority will be given to projects related to these sectors when allocating funds and in development cooperation dialogues, but it will also be possible to provide funding for projects in other sectors.

Cooperation will focus on projects that are given priority by the developing countries. Close cooperation between the diplomatic and consular missions, Innovation Norway and business actors to identify possible areas for Norwegian engagement will be crucial. Funds should only be allocated to private sector actors following a tendering process or some other form of competition, in accordance with the rules that apply in the country concerned and international standards.

3.2 Partners

Norway's intensified efforts to promote private sector development will be directed through a number of channels using a range of measures. In order to achieve economic growth, increased investment and spill-over into the local economy, it is important to support measures that can mobilise the private sector at the local level. In addition, the Government intends to increase the use of public-private partnerships in specific development projects, for example improving infrastructure or delivering services.

Norwegian companies

Many Norwegian companies operate in, or are considering launching operations in, markets in developing countries. This can be of mutual benefit to the companies and the host country. The Government will

therefore facilitate partnerships that meet the needs of developing countries, while being profitable for the companies involved. Achieving a good development impact generally requires cooperation on a large enough scale and a long-term commitment.

Close interaction between public and private actors will be important for identifying specific projects that are well suited for increased Norwegian private sector engagement in the various countries. In addition to carrying out their business operations, Norwegian companies will be able to play an important role as dialogue partners in the work to improve the environment for business activities.

Local spill-over effects

Many developing countries in Africa have managed to maintain a high rate of economic growth due to certain key sectors, such as raw materials and the extractive industries, which are important drivers for the economy. However, this high growth rate has not resulted in a corresponding increase in employment. The aim of Norway's efforts to promote local spill-over effects will be to have a positive economic impact and foster inclusive growth. This includes job creation, the transfer of knowledge and technology, sustainable locally-based private sector development and revenue mobilisation. Efforts to promote private sector development at the local level will build on the diplomatic and consular missions' existing portfolio, which includes education, agriculture, clean energy, good governance and the Oil for Development programme.

In countries that have substantial Norwegian investments, the Government wishes to cooperate with the private sector on development projects. The focus will be on finding solutions and models for cooperation that can maximise the development impact of Norway's engagement and increase the local economic spill-over effects.

Norway's efforts will primarily focus on two main pillars: 1) support for start-ups and for strengthening local businesses, and 2) vocational education and training.



Figure 3.1 Dreu-nberg, South Africa. Solar panels from Scatec Solar.

Photo: Norfund.

Clusters and knowledge institutions

Cooperation on technology, innovation and research is of key importance for the companies, knowledge institutions and other partners that make up a cluster. Research shows that creating clusters makes a country or a region more attractive for business activities. Cluster cre-

ation can therefore be an important aspect of business policy in developing countries.

Just as business activities stimulate growth, Norwegian knowledge institutions can contribute to economic development through capacity-building and the transfer of expertise. The measures to internationalise Norwegian higher education and knowledge institutions should therefore also be seen in the context of development policy.

Civil society organisations

Civil society organisations play an important role in private sector development. Various civil society actors work to promote better governance, anti-corruption, infrastructure improvements and respect for human rights. Others work for improved access to credit and other financial services, better market access, favourable conditions for entrepreneurship, a qualified workforce and local economic spill-over effects. Civil society organisations usually have detailed knowledge about the local community, whether rural or urban. They have networks, a local base and often the benefit of a good reputation.

In many poor countries, the majority of the population works in the agricultural sector. A number of civil society organisations are working to strengthen the land rights of people in poor communities, with a particular focus on women's land rights. Land rights create opportunities for local private sector development, particularly if they are combined with measures that provide access to credit.

Another important task for civil society is to hold public authorities and the private sector accountable for their actions. Many civil society organisations are working to ensure that both governments and private sector actors show greater transparency on contracts and capital flows. The Government wishes to promote greater transparency, and will strengthen its cooperation with watchdog organisations both nationally and internationally.

Multilateral organisations

Because of their expertise, capacity and local presence, multilateral organisations are important partners in many countries. Multilateral instruments often have greater risk-reducing potential than bilateral schemes, due to the size of the institutions concerned and their importance for the authorities in the host country. In addition, multilateral organisations have an important role to play in mobilising and coordinating resources for private sector development projects in developing countries. Moreover, they play an important part in the work of developing and maintaining standards, rules and an environment that is conducive to private sector development. Much of Norway's support for private sector development is channelled through multilateral organisations.

Multilateral efforts can yield economies of scale that would normally not be achieved through bilateral measures. Most of Norway's support for multilateral measures is given as core contributions. In addition, Norway provides ear-marked allocations for specific priorities or areas, when they are considered particularly well suited for Norwegian engagement. This may include developing new instruments and initiatives.

4 Strengthening Norway's efforts to promote private sector development

Important aspects of Norway's efforts to promote private sector development, both multilaterally and bilaterally, will be maintained. This includes investments made through Norfund (the Norwegian Investment Fund for Developing Countries) and funding for leading multilateral actors such as the World Bank and the UN, as well as bilateral initiatives to improve the business environment, such as Oil for Development, Fish for Development, and cooperation on clean energy and tax systems.



Figure 4.1 Tanzania. This lady was able to buy the poles and the ropes she uses to grow seaweed in the sea with the help of a microfinance loan. The seaweed is sold to a factory that exports it to Japan.

Photo: Wim Opmeer

The Government will also make changes in existing policy instruments and implement new measures. Some of these are outlined below.

More support for private sector development

The Government will increase Norway's support for private sector development in developing countries and facilitate strategic cooperation with the Norwegian private sector and knowledge institutions, with a view to achieving better performance.

Greater emphasis on aid as a catalyst

The Government will emphasise the strategic use of development assistance funds to promote private sector development. Development cooperation will increasingly be used to mobilise capital or other input factors from the private sector. In this context, the Government will increase the use of innovative financing mechanisms.

A more systematic geographical approach

The Government will intensify its efforts to promote private sector development through long-term programmes in the six focus countries Ethiopia, Malawi, Mozambique, Myanmar, Nepal and Tanzania. The Government will also support private sector development projects in other developing countries that are eligible for Norwegian aid, including selected countries in West Africa.

Greater emphasis on the links between development cooperation and other economic engagement

The Government will strengthen collaboration between public bodies and other Norwegian actors that are engaged in business-oriented efforts in developing countries. This will include cooperation with key private sector actors, in part to ensure that major business investments have a local economic spill-over effect.

Greater emphasis on information and advice for the Norwegian private sector

The Government will establish a business information and advisory service for Norwegian companies operating in challenging markets. This service will also cover business and financing opportunities available through the multilateral system. Private sector expertise will be strengthened at relevant diplomatic and consular missions, and close cooperation between the missions and Innovation Norway is envisioned.

More capital allocated to Norfund

The Government will continue to strengthen Norfund as a key channel for support to private sector development and investments in renewable energy. No significant changes to Norfund's activities are envisaged.

More targeted and results-oriented private sector development schemes

The Government will replace Norad's current application-based scheme, including the Business Matchmaking Programme, with a new, competitive scheme. The new funding scheme will be a far more important instrument for Norway's private sector development efforts than the current scheme is.

Adapted export finance schemes

If today's exposure limit is reached, the Government will assess the exposure limit for the guarantee scheme for export to and investment in developing countries (*u-landsordningen*) administered by the Norwegian Export Credit Guarantee Agency (GIEK), with a view to promoting the Norwegian private sector's activities in poor countries. In addition, the Government will harmonise the regulations used by Export Credit Norway concerning the definition of projects that are considered to be in Norway's interests with those of GIEK. In order to

promote trade with developing countries, adjustments will also be made to how Export Credit Norway secures its loans. All these measures are in line with the provisions set out in international agreements.

The Government will, on an ongoing basis, monitor the development of relevant financing schemes for the private sector in other countries.

More strategic efforts in selected sectors

The Government will focus its bilateral efforts on sectors that are of great importance for many developing countries and in which Norway has particular expertise. Priority will be given to efforts in the energy, ICT, agriculture, fisheries/marine resources, and maritime sectors.

More business-related R&D cooperation

Within the existing R&D framework, the Government will establish knowledge bridges between Norwegian knowledge institutions and developing countries where conditions are conducive to cooperation on business-oriented research and higher education. These programmes will focus on the priority sectors, and will be open for projects at all stages of the knowledge chain. Partnerships with knowledge-intensive Norwegian businesses, including clusters, will be encouraged. The purpose is to build local expertise in order to develop a more knowledge-based private sector.

Greater emphasis on good governance

The Government will emphasise good governance as crucial to private sector development, and will support efforts in the areas that are most important to the private sector in the countries concerned.

Greater emphasis on infrastructure

The Government will promote increased international support for investments in infrastructure through public–private partnerships. The need for a transition to environmentally sound, sustainable infrastructure will be emphasised.

Greater emphasis on marginalised groups

The Government will work to promote increased access to financial services for business actors in developing countries, with particular emphasis on marginalised groups. Support for formalising the economy is important, although Norwegian support will also be provided to the informal sector.

Greater emphasis on climate change and the environment

The Government will ensure that Norway's efforts to promote private sector development are sustainable, emphasising measures that promote responsible use of resources and a green shift. This means strengthening partnerships with actors that can help developing countries to grasp the economic opportunities this shift provides.

Greater emphasis on the significance of trade

The Government wishes to use trade as an instrument of development policy to a greater degree than before. Trade is crucial for development, economic growth and employment. At the same time, the least developed countries are only able to exploit the potential inherent in increased trade and market integration to a limited extent. Trade-related measures involve both helping national authorities, so that the country can participate in international trade and sell its export products, and working to maintain and strengthen the multilateral trading system, in which developing countries have a real opportunity to win



Figure 4.2 Bangladesh. Thousands of poor men and women in Bangladesh collect and recycle plastic to earn their living. The plastic pieces are then dried and sold to manufacturers.

Photo: Probal Rashid

acceptance for their demands. This white paper must be seen in close connection with the white paper on globalisation and trade (Meld. St. 29 (2014–2015)).

Greater emphasis on responsible private sector development

The Government will promote conducive conditions for safeguarding human rights and workers' rights, efforts to protect the environment and anti-corruption work, and will base its work to advance private sector development on international CSR standards and best practices. This will be stressed in the Government's dialogue and cooperation with all actors. The Foreign Service will intensify its efforts to provide guidance to the private sector on these issues.

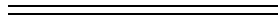
Greater emphasis on women's rights and gender equality

The Government will ensure that women's rights and the gender perspective are integrated into its work to advance private sector development. Norway will also support targeted efforts to reduce political, economic, legal and other structural obstacles to women's participation in the private sector.

Greater emphasis on creating an enabling environment through multilateral cooperation

The Government will work through multilateral organisations to promote better conditions for private sector development in developing countries, and will focus its efforts on fewer – and more large-scale – projects. Private sector development and job creation will be emphasised in Norway's dialogue with the multilateral development banks and the UN system, and through participation in their governing bodies. Norway will also support concrete initiatives through these institutions.

The Government will conduct a comprehensive assessment of the relative strengths of the various UN organisations in promoting private sector development, and will use this as the basis for increasing Norway's cooperation with selected organisations on targeted efforts.



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