

# Chapter 1: Towards a comprehensive Norwegian development effort

## Global development issues

Norway focuses on and contributes strategically to global issues that are important for the country and for the international role it plays, such as peace and conflict resolution, global health, and climate change. Its strategy is to focus on a few themes within which it can make an impact, and then expand on these globally. This concentrated effort enables Norway to punch above its weight on the global stage. Its commitment to leading in critical and challenging global development issues is commendable.

### Norway offers a strategic and growing contribution to global development

Norway recognises that globalisation and geopolitical changes present new opportunities as well as challenges for development (MFA, 2009b). It is in Norway's national interest as a small, open economy to promote strong international norms, institutions, and rules (or global public goods) as well as help build a better organised world.<sup>1</sup> At the heart of its foreign policy lies its commitment to democracy, the rule of law and individual human rights, combined with its dedication to open, tolerant societies. Preventing conflicts and promoting peace also rank high on its list of priorities. As such, it is among the more progressive voices in the global development landscape, committed to critical and challenging development issues. For example, Norway:

- > plays an important mediator and facilitator role with Cuba in the Colombian peace process, having helped launch peace negotiations between the Colombian government and the Revolutionary Armed Forces of Colombia in 2012;
- > supports peace and development efforts in the Middle East, chairs the Ad Hoc Liaison Committee for Assistance to the Palestinians, and is one of the main contributors to the humanitarian efforts in Syria;
- > plays an active role in the international negotiations under the UN Framework Convention on Climate Change and is tackling global climate challenges by sponsoring innovative solutions, such as its International Climate and Forest Initiative, and by co-operating with other countries in such forums as the Barents Euro-Arctic Council;
- > works to strengthen the protection of minorities by raising their issues at the political level, including hosting major international conferences on discrimination and violence against religious and sexual minorities; and
- > plays a leading role in promoting gender equality and women's rights internationally and in following up on the UN Security Council Resolution 1325 on women, peace and security.

In its white paper on foreign policy, *Interests, Responsibilities and Opportunities* (MFA, 2009b), the Government states that in an increasingly global society its foreign policy interests "can no longer be limited to narrow self-interest." An international

legal order and multilateral regimes are vital for safeguarding such interests. In particular, it focuses on foreign policy areas that are important for Norway and the international role it plays. Norway's strategy is to focus on a few themes within which it can make an impact, and then expand on these globally. This concentrated effort enables Norway to punch above its weight on the global stage

## Policy coherence for development

Indicator: Domestic policies support or do not harm developing countries

**Norway adheres to the DAC's 2008 recommendation to develop an overall approach to policy coherence for development. Policy co-ordination appears to be a natural part of the Norwegian Government's decision-making processes which tend to involve making decisions through inter-ministerial co-ordination. Although submitting several stock-taking reports on policy coherence for development to its parliament has been a positive start, Norway needs to define a clear agenda on a few select incoherence issues that could serve to stimulate broader discussion, and rally political support to address difficult issues and foster lasting policy change.**

**Norway has a process in place to promote policy coherence for development** Norway is committed to, and advanced in; implementing development-friendly and coherent policies<sup>2</sup> with clear links made to poverty reduction and internationally-agreed development goals, particularly the Millennium Development Goals (MDGs). The *Soria Moria Declaration* (Office of the Prime Minister, 2005) forms the basis of the current government's policy, and outlines its commitment to coherent foreign, security, economic, and environmental policies. Later in 2008, the importance of establishing coherent policies for development was discussed by the government-appointed Policy Coherence Commission in *Coherent for Development?* (GoN, 2008), which identified the aspects of Norwegian policy that have direct effects on poor countries. The white paper, *Climate, Conflict and Capital* (MFA, 2009a), followed in 2009, in which the Government details its approach to policy coherence for development in accordance with recommendations of the Commission. The white paper places development policy within the context of wider foreign policy and security issues, and provides a stronger framework for ensuring coherence between domestic and development policy for reducing poverty in developing countries.

**Norway is managing conflicts of interest between its development policy and its other policies** Norway's efforts towards addressing policy incoherence include formal and informal mechanisms for inter-ministerial co-ordination and policy arbitration involving all relevant ministries. Coherence issues are regularly discussed at the Cabinet level, with the Prime Minister's Office playing a facilitator role in ensuring general policy coherence in government (MFA, 2013a). In terms of the co-ordination of policy coherence for development within the Government offices, the Norwegian Ministry of Foreign Affairs (MFA) acts as the main conduit for inter-ministerial co-ordination and manages conflicts of interest between its development policy and its other policies. It takes the lead in analysing potential areas of policy conflicts

and working with other ministries on resolving issues of incoherence. Efforts are largely ad-hoc, focusing on specific issues (e.g. environment, international trade and migration) as they arise, and there is a need for cross-government thinking towards achieving a specific goal.

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**Norway needs to implement adequate systems for monitoring, analysis, and policy feedback to deliver on its broad vision and demonstrate results**

Since the last peer review, the Ministry of Foreign Affairs has established annual routines for evaluating and reporting on the coherence of Norwegian policy as part of its budget proposals to the Storting.<sup>3</sup> In its first report on policy coherence for development in 2011, the Ministry analysed the effect of Norwegian policies on, and the benefits of, coherence in six global challenges identified as affecting the development potential of developing countries (MFA, 2012b).<sup>4</sup> The second annual report for 2012, *Energy and Development*, is narrower, but deeper and more concrete in focus, and studies coherence between Norway's business and development policies, particularly as regards investments in the energy sector (MFA, 2013b).<sup>5</sup> While the annual policy coherence reports are a positive start, they respond only partially to the 2008 peer review recommendation. Aside from the political debate they generate when they are presented to the Storting, there is no clear evidence that the reports have inspired actual changes in policies. They remain stock-taking reports based on self-reporting and without measurable indicators to track progress, or address impact. The Government considers preparing the annual report as an important objective as well as a means to encourage further debate among decision-makers and the public more generally. Nevertheless, the reports, co-ordinated by the Ministry of Foreign Affairs, are subject to agreement among all ministries, which may result in more critical issues not being addressed. The reports have been criticised by the Norwegian civil society for being "too self-congratulatory and not critical enough."<sup>6</sup>

To help overcome this problem, the Ministry of Foreign Affairs could commission longer-term studies to analyse potential areas of policy conflict in order to have solid evidence to underpin discussion with other ministries. This was suggested in the last peer review, but was apparently not done. Norway would also benefit from developing a specific, time-bound coherence agenda that would enable it to target its analysis to a select number of important issues of potential (or real) incoherence. This coherence agenda should establish cross-governmental objectives that are agreed to and owned by all ministries, as well as a plan for achieving them. Norway could incorporate the recommendations of the OECD Council on monitoring policy coherence for development (OECD, 2010), as well as draw on the expertise of civil society and independent research institutes. Developing such an agenda could stimulate broad-based discussion on policy coherence and garner political support to address difficult issues.

**Norway is tackling incoherence**

Norway is tackling instances of incoherence in specific areas of its policy. Since 2009, the Norwegian Government Pension Fund–Global has taken an increasingly activist role with its ethical guidelines barring it from making investments that may contribute to, among other things, human rights violations, corruption, or environmental damage. Nevertheless, the environmental and natural-resource implications of the production and supply chain of the companies in which the Fund invests had not been the key focus of selection criteria – until recently.<sup>7</sup> In September 2012, the Government implemented a new policy to correct this incoherence by requiring companies to disclose their impact reports on tropical forests to be compliant with the broad Norwegian policy to reduce global deforestation, a key pillar of its policy on climate change and sustainable development (OECD, 2013a).

## Engaging in partner countries: Co-ordinated government approach at country level

Indicator: Strategic framework, institutional structures and mechanisms facilitate coherent action

**Norway has a sound strategic framework for ensuring co-ordinated and cohesive development co-operation in key areas, such as climate change, peace-building, gender equality, and global health. However, the lack of whole-of-government strategies hinders co-ordination of its approach at the operational level in partner countries.**

**Norway is taking a more co-ordinated approach in partner countries**

Norway has adopted a whole-of-government approach in some areas of its development co-operation, namely in the Oil for Development, renewable energy and climate change initiatives (Box 1.1.), and in its support to fragile states, particularly Afghanistan. Here humanitarian and development aid had followed Norwegian forces, although, according to MFA officials, this occurred without a coherent whole-of-government strategy (see also de Coning et al., 2009).

Norway no longer develops multi-year aid strategies for its partner countries. Instead, aid activities are defined and outlined by the embassies in their annual work plans according to the priorities set in their appropriation letters. Nevertheless, as the peer review team observed in Guatemala, a co-ordinated approach at the partner country level is difficult without a whole-of-government approach. For example in Guatemala, the embassy's annual work plan only covers activities that it directly administers, keeping the rest of Norwegian programmes in the country outside of its radar screen.

Norway also sees the importance of using other public and private resources, including innovative financing, in its whole-of-government approach to meet the many global development challenges. In *Business Creates Development* (MFA, 2012c) Norway presents its foreign policy framework as well as many other instruments and channels for co-operating with the private sector. Its new emphasis on sustainable economic growth and the private sector, particularly stimulating private investment in renewable energy production in developing countries, is

aligned with the Busan Outcomes regarding public-private co-operation. This shift is also marked by an emphasis on aid as an impetus to expand Norwegian business and investment in the poorest developing countries.

**Box 1.1 Oil for Development: Whole-of-government approach to capacity development**

Norway, through its Oil for Development programme, assists developing countries in establishing a legal framework and credible institutions to manage their petroleum resources in a way that helps reduce poverty and preserve the environment in the long term. The Oil for Development is led and steered by four ministries (Foreign Affairs, Petroleum and Energy, Finance, and Environment), underscoring its political importance. The majority of its activities are focused on enhancing the capacity of government and civil society staff. Because no support is given to commercial stakeholders, it is able to maintain impartiality and avoid potential commercial conflicts of interest. For instance, the Norwegian oil company, Statoil, is active in countries (Angola, Nigeria, and Tanzania) where the Oil for Development programme operates. The Oil for Development's annual funding has increased almost five-fold from NOK 70 million in 2006 (the first full year of operations) to NOK 340 million in 2012.

In 2011, the Oil for Development programme was active in 22 countries, including 11 fragile states (as listed in OECD, 2013b), with many ranking in the lower-third of the Corruption Perception Index (Transparency International, 2012). Given the centrality of corruption in oil-rich developing countries, the Oil for Development emphasises incorporating good governance within the core activities of its programme. However, a recent evaluation has revealed that good governance has not been given enough focus, with too few targeted activities (Norad, 2013a). The programme takes a relatively narrow anti-corruption approach, only addressing project-specific risks, rather than corruption problems more generally (Kolstad et al., 2009). Moreover, its focus on staff capacity development in itself may not automatically induce institutional change. The Norwegian Agency for Development Co-operation (Norad) is aware of the need to invest more in understanding the political economy of recipient countries, and is taking action.

**Norway could strengthen its whole-of-government co-ordination and manage trade-offs between competitive priorities more transparently**

Norway deals with country-specific issues and manages trade-offs between competing priorities through holding formal or informal inter-ministerial discussions. However, for example, strategies for fragile countries do not always outline clear whole-of-government priorities, another critical issue cited in an independent assessment of Norway's whole-of-government approach to Afghanistan (de Coning et al., 2009). These are often consensus documents that outline the different interventions, but not the synergies between them.

Establishing a formal institutional mechanism for inter-ministerial co-ordination for development could make relationships between the Ministry of Foreign Affairs

and other ministries, between aid actors (the Ministry, Norad, Norfund, and FK Norway) and, more broadly, the workings of whole-of-Norway in the context of Busan Partnership's financing for development more efficient. In addition, Norway is currently updating its state- and peace-building policy with a more holistic focus on improved internal co-ordination among participating ministries, ensuring that common, or at least complementary, priorities are defined in its approach to fragile states in the future.

## Financing for development

Indicator: The member engages in development finance in addition to ODA

**Norway promotes ODA as a catalyst for private investment in development efforts in partner countries, particularly in the natural resource and energy sectors. Using aid in this way is increasingly important for Norway due to the strong focus on private sector development outlined in recent policy statements, as well as the middle-income status of several of its major partner countries. Moving forward, it must ensure that development objectives and partner country ownership are the focus of the activities and programmes it supports. Norway could achieve greater development impact by focusing on creating a beneficial climate for investment and business in partner countries.**

### Norway promotes ODA as a catalyst for increasing private flows

In *Climate, Conflict and Capital*, the Government states that it would increase partnership with the private sector and encourage the use of aid as a catalyst for increasing private contribution and stimulating greater commercial investment in developing countries (MFA, 2009a). Norway has a range of aid-funded support programmes for this purpose.<sup>8</sup> Its development finance institution, the Norwegian Investment Fund for Developing Countries (Norfund), for example, uses equity capital, loans, and guarantees to help “establish sustainable, profitable businesses that would otherwise not be established due to a high risk” (MFA, 2013a), particularly in the three priority sectors: renewable energy, finance, and agribusiness.<sup>9</sup> Equity investments account for 80% of Norfund's invested capital, and around half of its capital is invested in renewable energy (ibid). Norfund committed NOK 1.2 billion (USD 212 million) in new investments in 2012 on top of NOK 8.3 billion (USD 1.4 billion) already committed for that year (Norfund, 2012). Norfund activities are complemented by Norad's small business start-up support programme that mainly consists of grants for feasibility studies, training of local employees, infrastructure investments for establishment of the business, measures to strengthen environment, health and safety standards, and corporate social responsibility. Norad's focus on the Norwegian business sector with programmes

such as Business MatchMaking is appreciated by Norwegian companies.<sup>10</sup> However, Norway could achieve greater development impact by focusing more directly on creating a beneficial climate for investment and business in partner countries.

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**ODA accounts for the majority of Norway's official development finance to partner countries**

ODA generally accounts for almost all of Norway's official development finance. Norway's other official flows (OOFs), mainly investment activities in developing countries (equities and other bilateral assets), were USD 0.7 million in 2010, accounting for a mere 0.01% of its total official flows to developing countries. After a steep fall in 2008, Norway's net private flows to developing countries substantially increased in 2009 (USD 895 million) and 2010 (USD 1.5 billion), although 2010 was still below the pre-crisis level of USD 2.6 billion in 2007. Missing from these figures are the vast investments made overseas, including developing and emerging economies, by the Norwegian Government Pension Fund–Global – the world's largest sovereign wealth fund valued at more than USD 730 billion.<sup>11</sup>

Norway reported all Norfund's operations as ODA equities, which peaked in 2007 (USD 265 million) and then declined the following year.<sup>12</sup> These figures rose again in 2010 and 2011, reaching USD 286 million. A recent DAC review of development finance portfolios and reporting in statistics revealed that Norfund's outflows consisted of both loans and equity investments. Norway should distinguish between equity and loans in DAC reporting, particularly with regard to ODA, because the grant element for each individual loan must be calculated.

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**Norway is increasing its efforts to combat illicit capital flows**

Norway recognises the importance of better regulation of international financial flows and capital in development, particularly, addressing corruption as central in helping resource-rich developing countries escape the "resource curse." Illicit capital flight has become a priority because it falls within the resource and financial management expertise that Norway has developed in its four decades' experience of managing vast oil reserves (Box 4.1.). A new white paper, *Sharing for Prosperity*, addresses the issues of equitable distribution of resources and opportunities (MFA, 2013c) and details increased efforts to stop illicit capital flight out of poor countries (through anti-corruption and money laundering programmes). Norway also actively supports international initiatives, such as the Extractive Industries Transparency Initiative (by hosting its secretariat), the Leading Group on Innovative Financing for Development, and the OECD's Oslo Dialogue on fighting tax crimes and other illicit financial flows. Finally, it has for many years also contributed towards multilateral efforts to implement international standards by supporting the Global Forum on Transparency and Exchange of Information for Tax Purposes hosted by the OECD.<sup>13</sup>

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## Notes

1. Foreign policy address by the Minister ([www.regjeringen.no/en/dep/ud/whats-new/Speeches-and-articles/e\\_speeches/2013/address\\_february.html?id=714380](http://www.regjeringen.no/en/dep/ud/whats-new/Speeches-and-articles/e_speeches/2013/address_february.html?id=714380), accessed on 18 May 2013).
2. Norway was ranked second overall in 2012 Commitment to Development Index (CGD, 2013).
3. MFA's annual PCD reports are prepared on the basis of contributions from relevant ministries, and are consensus documents that outline the benefits of coherence for different policies.
4. These are: access to knowledge and technology; economic growth and social development; climate change and sustainable development; peace and security; global health; and human rights and gender equality (MFA, 2012b).
5. In particular, it reports how the government is ensuring that Norwegian companies working in poor countries exercise good social, environmental, and governance standards, in line with its Corporate Social Responsibility in a Global Economy (MFA, 2009c).
6. As quoted in Norway's memorandum (MFA, 2013a). In response to the MFA report, the Norwegian Church Aid published a "shadow report" on the same issue, with the aim of presenting a more "independent" evaluation on coherence as an advocacy tool to foster change in government policies to make them more supportive of developing countries' goals for development (Norwegian Church Aid, 2011).
7. Several campaigners targeted the Fund for continuing to invest in companies associated with deforestation, especially timber, palm oil, mineral, and wood pulp production (Rainforest Foundation Norway and Friends of the Earth Norway, 2012).
8. In terms of non-ODA support, the Norwegian export credit agency, GIEK, offers (political risk) guarantees to Norwegian companies for investments in and exports to developing countries under its Developing Countries Scheme ([www.giek.no/resources/rapporter/Annual\\_report\\_2012.pdf](http://www.giek.no/resources/rapporter/Annual_report_2012.pdf), accessed on 22 May 2013).
9. Norfund obtains its capital from both the aid budget as well as the dividends and sales of assets in former investments (MFA, 2013a). Norfund's loans are also issued on commercial terms.
10. The majority of the recipients of Norad's programmes are small- and medium-sized Norwegian companies. In 2011, Norad spent NOK 45 million (approximately USD 8 million) to support business activities in developing countries.
11. Source: SWF Institute ([www.swfinstitute.org/fund-rankings/](http://www.swfinstitute.org/fund-rankings/), accessed on 13 June 2013).
12. The fall could be partly explained by the partial sale of Norfund's shares in SN Power in 2009 which had been registered as a negative investment.
13. In its 2011 review by the Global Forum, Norway has been commended as having "a very high standard" with a comprehensive legal and regulatory framework for transparency and exchange of information (OECD, 2011).



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