



NORWEGIAN MINISTRY
OF FOREIGN AFFAIRS

Meld. St. 25 (2012-2013) Report to the Storting (White Paper)

Sharing for prosperity

Promoting democracy, fair distribution and growth
in development policy



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*Recommendation from the Ministry of Foreign Affairs of 5 April 2013,
approved in the Council of State on the same date.
(White Paper from the Stoltenberg II Government)*

Summary

Many developing countries have experienced strong economic growth in recent years. Nevertheless, 1.2 billion people are still living in extreme poverty. More than 70 % of these live in middle-income countries. While distribution between countries is becoming more equal, economic growth within countries is not being distributed fairly. The global trend is towards increasing income disparities within countries. This white paper focuses on the distribution of resources within countries, not just between them.

The Government intends to place more emphasis on fair distribution and growth in poor countries through more targeted efforts to promote democracy, human rights and transparency, and reduce inequality.

Inadequate distribution of formal and informal power impedes the fair distribution of resources. One reason is that people may not have sufficient opportunity to hold their democratically elected authorities accountable. There are many different formal and informal power structures, and these must be analysed on the basis of the local context.

Norway's efforts will follow four main approaches:

1. In low-income countries that themselves are seeking to achieve social development with low levels of inequality, we will engage in direct dialogue with the authorities and use aid strategically to improve fair distribution and increase growth. At the same time we will continue efforts that we know help reduce poverty, such as strengthening the health and education sectors.
2. In our dialogue with the authorities in middle-income countries, we will draw more attention to the fact that these countries need to prepare for the time when they no longer receive international aid and have to take greater responsibility for providing services and welfare to their people.
3. In countries with authoritarian regimes, or where there is marked discrimination or secrecy, the Government will give priority to cooperating with agents of change in civil society rather than providing aid via the authorities.

4. In the international arena, the Government will seek to draw greater international attention to national distributive policies.

Responsibility for ensuring that human rights are respected lies with the authorities of each country. Norwegian development policy takes a rights-based approach. This entails not only strengthening the national authorities' ability to protect their citizens' rights, but also increasing citizens' knowledge of their rights and their ability to claim these rights. Gender equality, including enhanced respect for women's rights, better access to resources and greater opportunities for women to exert an influence, also contributes to economic growth and poverty reduction.

This white paper signals a stronger focus in Norwegian development policy on sustainable growth and fair distribution within individual countries. The Government will attach more importance to sustainable management of natural resources, job creation, fiscal and financial administration, human rights, democracy, transparency and the fight against illicit financial flows and tax havens.

The international discourse and lessons learned

The 2006 issue of the World Bank's *World Development Report* established that there is no contradiction between growth and equity. This recognition was partly based on the experience of the Nordic countries where greater equality bolsters rather than impedes long-term economic growth. There is a basic understanding in the international debate today that social development requires a balance between access to social services, sustainable economic growth and fair distribution. Various concepts and approaches to promoting social development are used.

Even if the Millennium Development Goals (MDGs) are reached by 2015, significant challenges will remain in terms of fighting poverty. The UN has started work on developing a new set of goals for the post-2015 period. There is general agreement that the new goals must address the major changes the world has seen over the last decade. Norway will attach importance to the inclusion of fair distribution and gender equality in the new agenda, and will in addition take particular responsibility for the integration of energy issues into the post-2015 agenda. The work on the new goals is linked to the decision at the UN Con-

ference on Sustainable Development (Rio+20) to launch a process to establish sustainable development goals (SDGs).

The Nordic model has become a familiar concept internationally. It can serve as an inspiration for developing countries in their efforts to promote fair distribution, and many developing countries are interested in Norway's experience of well-organised labour relations and a highly developed welfare state.

Latin America is the continent with the highest level of inequality, but several Latin American countries have seen a reduction in inequality in recent years. The main reason for this is the pursuit of deliberate policies to combat poverty and reduce disparities in response to demands from broad segments of the population.

Democracy

There is a close link between the distribution of economic goods and the distribution of political power. Research indicates that democracy fosters economic growth. The Government would like to steer bilateral government-to-government cooperation towards countries showing a positive democratic trend. Having the expertise and capacity to assess democratic development over time and on the basis of the local context is crucial. An active civil society and popular engagement are important for a successful democracy in any country. In countries where the trend is negative, the Government will support pro-democracy civil society actors rather than the authorities.

A diverse civil society is an important supplement to elected bodies. Civil society and the independent media can act as interest groups, watchdogs and agents of change. By entering into partnerships with local organisations, Norwegian actors are able to build competence and develop alliances between groups and interests, and thus help to mobilise a broad popular front against poverty and oppression and in support of the redistribution of power.

Corruption at all levels exacerbates disparity and inequitable distribution. A high level of corruption undermines confidence in democratic institutions and in institutions that are supposed to protect citizens' rights. The fight against corruption is an important element in the Government's efforts to promote good governance at the local, national and global levels.

Sustainable growth that creates jobs

Creating decent jobs is the best way of lifting people out of poverty and ensuring fair distribution of social goods. Regular income is the single factor that has the greatest impact on people's living conditions. Employment in decent jobs is in itself an effective distribution mechanism, and is at the same time good for productivity and growth. However, today an increasing proportion of the unemployed are young people under the age of 25 and as many as 60 % of workers worldwide are working in the informal sector.

Social dialogue has played a key role in ensuring social development, promoting fair distribution and improving general welfare in Norway. The Government will share Norway's experiences with social dialogue wherever this is of interest. The Confederation of Norwegian Enterprise (NHO) and the Norwegian Confederation of Trade Unions (LO) and other organisations in the labour sector will be partners in this work.

The right to organise and collective bargaining are fundamental in this context and have a natural place in the debate on decent work, development and fair distribution. It takes time to define the roles of employers' and workers' organisations, and these will vary according to the situation in the country concerned. The Government will encourage closer cooperation between trade unions across national borders through South-South cooperation and cooperation with regional organisations.

Norfund – the Norwegian Investment Fund for Developing Countries – is the Government's most important development policy instrument for stimulating investment and job creation in developing countries. At least half of the new capital replenishment for 2013 is earmarked for the renewable energy sector. Access to energy is vital for job creation.

Reliable access to better and more modern energy services increases opportunities for economic growth and social development. A total of 1.3 billion people worldwide do not have access to electricity. Access to modern energy services is particularly important for women's time-use, income opportunities and health. The Government has implemented several measures to improve access to energy and to enhance knowledge about the role of energy in development policy. We will increase our support for renewable energy developments, with access for all as the overarching goal.

The electricity sector is dominated by commercial actors, and electricity prices must therefore cover actual production and transmission costs. In many areas, electricity is too expensive for the poorest segments of the population. For most developing countries, it will take several decades to develop a nationwide grid, and this will require a huge level of investment that is unrealistic at present. Alongside our support for developing national electricity infrastructure, the Government will also support programmes to develop renewable energy production facilities in areas that will not be linked to a national grid.

Management of natural resources

Many developing countries have abundant natural resources. Sound management of these can create a basis for fair distribution and sustainable growth. Norway's expertise in this field is in demand internationally. The Government intends to increase aid to countries that are willing to take action to ensure that their natural resources are managed responsibly and to the benefit of the whole population.

In many countries, large revenues from non-renewable resources have led to what is known as the "resource curse". Norway is one of few countries that have avoided the resource curse because petroleum resources have been soundly managed. We share this experience through our Oil for Development programme. The aim of the programme is to assist developing countries in managing their petroleum resources in a way that contributes to long-term poverty reduction and takes proper account of the environment. The programme is already in great demand, and will be further strengthened, for example by ensuring that the four components – resource management, financial management, environmental management and safety management – are seen as a coherent whole.

In 2011, the Tax for Development programme was established. While Oil for Development looks at petroleum taxation in the context of integrated resource management, Tax for Development considers the taxation of non-renewable resources as an important element in the overall taxation policy and administration. The perspectives and approaches are different, but the main principles are the same, and the two programmes complement one another.

The extractive industries in many developing countries were privatised towards the end of the 1990s. Since then, prices of minerals and metals

have increased markedly. It is important that developing countries are enabled to renegotiate unfair agreements with actors in these industries. The Government will initiate the establishment of an international independent group of experts to provide assistance to developing countries to renegotiate such agreements.

Agriculture is the most important industry in many developing countries, and poverty reduction in these countries will depend on increasing productivity in this sector. Fish is a renewable resource that contributes to both food security and good nutrition, and Norway has built up expertise about the whole value chain. In 2012, the Government presented a strategy for increasing aid aimed at strengthening food security, *Food Security in a Climate Perspective*, and will increase funding for developing agriculture and enhancing food security by NOK 500 million in the period up to 2015.

Over the last ten years, several international organisations have drawn attention to the rise in organised natural resource crime. The Government will increase its efforts to fight natural resource crime, with particular emphasis on illegal logging and illegal fishing.

Active distributive policies

An effective distributive policy entails government investment in public services that safeguard the population's fundamental rights and provide a safety net for the most vulnerable and marginalised segments of society. Norway intends to provide support to partner countries that show willingness to develop good distributive policies. Establishing a taxation system is a vital element in state-building, not only to fund public expenditure, but also to give the state legitimacy and develop democratic structures. Safeguarding the right of all citizens to basic education and health services is a cornerstone of distributive policy.

The challenge of ensuring that tax systems are fair is even greater at the global level. Support is growing for the introduction of global taxes that can finance global public goods. A global currency transaction tax of 0.005 % could raise as much as NOK 200 billion a year. However, the introduction of such a tax will not be possible without broad international support, including the support of influential countries. The Government is working in the international arena to win the support needed to introduce a currency transaction tax of this kind.

Direct cash transfers to certain groups have proven a cost-efficient and well-targeted instrument of redistribution. The Government will support the development of schemes for facilitating direct cash transfers to vulnerable groups.

The UN and the multilateral financial institutions

In recent years, multilateral organisations have directed more attention to equitable distribution, and the Government will work to ensure that this issue is given a more prominent position on the international agenda. The UN derives legitimacy from its universal mandate and membership. This, combined with the UN's rights-based approach, means that it is well placed to promote fair distribution. The UN plays a key role in developing international norms and standards and in helping member countries to implement them.

The World Bank has renewed its focus on poverty, and is in a position to intensify its efforts to promote inclusive and sustainable growth and social development. The International Monetary Fund has also emphasised that employment and equitable distribution are crucial for economic stability and growth, as well as for political stability and peace.

The United Nations Development Programme (UNDP) underlines the importance of taking into account the increasing disparity in income levels and developing policies to promote inclusive growth, productivity, employment and redistribution of wealth and income.

The Government will invite selected countries to form a group of friends to champion fair distribution in the multilateral arenas.

Illicit financial flows from developing countries

Corruption, tax evasion and other forms of economic crime exacerbate inequality and poverty and threaten democracy. Illicit financial flows from poor countries, as well as the use of tax havens and other international structures, means that huge amounts of money are siphoned off instead of being used for the common good. Tax havens make corruption and economic crime more profitable and attractive by making it possible to conceal income gained from illicit financial flows.

Greater financial transparency would make it easier to uncover and stop illicit financial flows. There is an urgent need to strengthen international control of financial flows, and to combat tax

havens and illicit transfers of money out of the country of origin.

The Government will initiate an international dialogue on the development of stricter rules for financial transparency, for example in the form of a convention or agreement. This would be an important tool for promoting transparency. Country-by-country reporting is one way of gaining insight into financial flows in multinational companies. Norwegian legislation on country-by-country reporting is planned to enter into force in 2014. A transparency guarantee would ensure that developing countries have access to the information

they need from extractive companies. The Government intends to promote an initiative to develop a transparency guarantee that can be used by the authorities in developing countries.

Most of the work being done to combat illicit financial flows takes place in Western countries. The Government will seek to establish a South-based network to combat illicit financial flows. The Government will also support the proposed upgrade of the UN Committee of Experts on International Cooperation in Tax Matters to an inter-governmental body.

1 Introduction

It is not true that world poverty will disappear if only economic growth is strong enough. The world's economy is five times the size it was fifty years ago, while there are only twice as many people. If this growth were fairly distributed, nobody would live in extreme poverty any more, but more than one billion people still do, while the world's richest keep getting richer. Mahatma Gandhi's words that the world has enough resources for "everybody's need, but not everybody's greed" are more relevant today than ever. It is important for the Government to challenge the idea that growth alone is sufficient to make a better world for everyone. The world needs political will to ensure fair distribution. Only then will economic growth benefit everyone.

Equality is good for social development. Respect for democracy and human rights results in good societies. Transparency promotes trust between people and their elected representatives, between employers and employees, between buyers and sellers and between partners that cooperate at all levels.

High levels of inequality, authoritarian governance and closed societies weaken trust between people and increase the risk of crime, violence and social unrest. Low levels of inequality, democracy, respect for human rights and transparency increase the chances for everyone to realise their potential, thus promoting development and diversity. This increases the level of trust in society.



Figure 1.1 Seven of the world's ten fastest growing economies are in Africa, but poverty is not being reduced at the same pace.

Photo: Georg Osodi/Panos/Felix Features.

Box 1.1 The trickle-down theory examined

“Trickle-down economics, which holds that so long as the economy as a whole grows everyone benefits, has been repeatedly shown to be wrong.”

Nobel Laureate in Economics, Joseph Stiglitz

Trust between people is a fundamental precondition for economic growth and development.

Through this white paper, the Government is announcing a concerted effort to promote fair distribution and growth in poor countries. This will take the form of more targeted efforts to promote democracy, human rights and transparency, and to reduce inequality.

1.1 Disparities are increasing

Ever since the development aid was in its infancy 60 years ago, the international community has emphasised the inequitable distribution between rich and poor countries. The term “the Third World” arose in the bifurcated international power structure of the post-war era to describe the large, diverse group of countries that belonged neither to the Eastern bloc nor to the Western bloc, and that shared the characteristics of poverty and powerlessness.

Despite significant global changes over the past 50 years, the greatest inequality is still related to differences between countries. Three quarters of the inequality in the world would remain even if each country divided its national income equally between all its inhabitants.

Norway is at the forefront of the fight for more fair distribution *between* rich and poor countries. There are no plans to change this policy. However, this white paper highlights a topic that, so far, has not been as widely debated in the development policy context, namely the *internal* distribution of resources in individual countries.

The countries in the world with most poor people, or the highest proportion of poor people in their populations, belong to the groups classified by the World Bank as low- and middle-income countries.

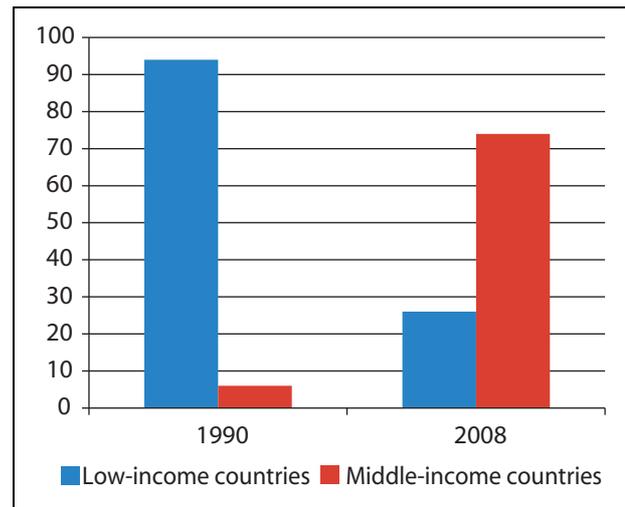


Figure 1.2 Where do the extremely poor live ¹

¹ During the same period, the world's population has increased by 1.4 billion.

Source: Andy Sumner, Where do the Poor People Live: An Update (based on figures from the World Bank).

Great changes have taken place within these groups in recent decades. In 1990, 93% of the world's poorest people lived in low-income countries. Today, middle-income countries are home to more than 70% of the extremely poor. They have not moved, but the economic growth that has taken place in Asia, Africa and Latin America during the past 15 years has resulted in 27 former low-income countries being upgraded to middle-income status.

These figures show that economic growth has not reduced poverty to a sufficient extent. A large share of the growth has only benefited a minority of the population – and inequality has increased. A 2012 report from the United Nations Conference on Trade and Development (UNCTAD) shows that the trend towards increasing income inequality, both within and between countries, has been consistent over the past 30 years, although differences between countries have decreased somewhat in recent years.

As a responsible development policy actor, Norway must endeavour to understand the complex reasons behind this development. Individual countries are always responsible for their own economic policy. However, the world's aid donors and development actors appear to be supporting a kind of growth that contributes to greater inequality in low- and middle-income countries, thus resulting in a smaller reduction in poverty than could have been achieved with greater equality.

Box 1.2 Definitions: Poverty, inequality and fair distribution

Internationally, poverty is most often measured in absolute terms. The World Bank defines living on less than USD 1.25 a day as *extreme poverty*. This is the poverty line on which the UN's Millennium Development Goals are based.

The World Bank also uses a poverty line of USD 2 per day. Many people who emerge from extreme poverty still have less than USD 2 per day to live on, and are thus at risk of falling back into extreme poverty.

Given that different countries have different currencies and cost levels, attempts are made to determine what corresponds to a purchasing power of USD 1.25 and USD 2 in each country. Such calculations are controversial, and it has been proven that small adjustments in conversion factors can have major effects on the poverty figures. Moreover, many countries estimate poverty on the basis of national poverty lines.

For rich countries, a relative poverty line in the form of a percentage of average income is normally used. In this sense, poverty is not a question of meeting basic needs in order to survive, as it is in developing countries, but of being in a position to live a normal life based on national standards.

Inequality and distribution are often defined as inequality in income and the distribution of income. One reason for this is that these factors are the easiest to measure. When the term inequality is used in this white paper in general, it primarily refers to inequality in income. Other dimensions of inequality, particularly inequality in terms of opportunities, power and influence, and in access to health services, education, natural resources and infrastructure, are also mentioned. It will be clear from the context what kind of inequality is meant.

The most commonly used measure of inequality is the *Gini coefficient*. The scale goes from 0 (everyone has the same income) to 1 (one person has all the income). Norway has a Gini coefficient of 0.24 (2008). Income inequality is normally deemed to be high when the value exceeds 0.4. The Gini coefficient is a measure of average differences, and different income distribution structures can produce the same value.

There is no clear definition of *fair distribution*. What is perceived as fair will vary between cultures and individuals, and, not least, between different political perspectives. Most people consider it fair that some people earn more than others if this is due to factors such as demand, educational level or willingness to take risks. However, there is a limit to how great the differences in income can be before they are perceived as being unfair. Most people see it as unfair that children starve and are denied access to education and health services in countries where even moderate tax increases would have been enough to end extreme poverty and provide universal public education and health services. Similarly, the global trade and financial systems have obvious unfair effects, for example when the vast majority of the population of countries that are rich in resources end up at least as poor as they were before after the national elite and international corporations have made a fortune from extracting these resources. Although the final goal is neither clearly defined nor universally agreed upon, there is more than enough that can be done to promote a more fair distribution within and between countries.

The Government believes that this must have consequences for our development policy and our dialogue with developing countries and multilateral partners. We must do more to ensure that our efforts to promote economic development in poor countries do not reinforce inequality.

The trend whereby more and more low-income countries are achieving middle-income status is good news. It means that many developing countries are experiencing strong economic

growth, in many cases higher growth rates than high-income countries. The distribution between countries is evening out. However, it is a major challenge for the international community that the growth is not more evenly distributed among the countries' inhabitants. Increased inequality is a global trend. There is also a tendency towards greater differences between the rich and the poor in the traditional donor countries.

Table 1.1 The World Bank's classification of the categories low-income and middle-income countries, gross national income (GNI) per capita in USD

Year	1990	2000	2011
Low-income countries	≤ 610	≤ 755	≤ 1 025
Middle-income countries	611–7 620	756–9 265	1 026–12 475

Source: The World Bank

Most poor people now live in middle-income countries, and this must have consequences for development policy. It is important to support progressive programmes and initiatives that promote fair distribution also in countries that are experiencing strong economic growth. This does not mean that the Government will divert aid away from the poorest countries, but that we will take a more strategic approach in our cooperation with middle-income countries.

The trend whereby growth does little to reduce poverty and does more to increase inequality is also seen in the poorest countries. In poor countries like Malawi and Mozambique, growth appears to primarily increase inequality rather than combat poverty. A report on global risk factors produced by the World Economic Forum (WEF) shows that increasing income disparity is deemed to be the risk that is most likely to materialise in the coming decade.¹

According to the World Bank, economic growth has lifted more than 660 million people out of extreme poverty during the past 20 years. There is no doubt that this is primarily the result of economic growth. However, the reduction could have been far greater if distribution had been fairer. The fight against poverty is both about economic growth and better distribution.

Research shows that, in the long term, a high level of inequality can impede growth and increase the risk of it coming to a halt. Poverty in itself appears to be an important obstacle to growth and development.

Previous theories about the relationship between economic growth and inequality have been influenced by the ideas of economist Simon Kuznets. He claimed that inequality increases as income levels rise, and then decreases again. This claim was based on an empirical analysis of changes in income distribution in the USA. It is not difficult to find examples of mechanisms that can explain such a correlation, for example that “someone has to become rich first” and that

inequality increases during periods of restructuring, and then decreases when others catch up.

However, studies of GNI per capita and the Gini coefficient for a large sample of countries show that this correlation is at best very weak, and that there is considerable variation in inequality for a given income level. There are very few examples of developing countries that have followed this curve over time.

China is the country that has been most successful in combining growth with lifting more people out of extreme poverty. More than 300 million Chinese have emerged from extreme poverty in the past 15 years, which means that, according to the World Bank, China accounts for an impressive 75% of the global reduction in poverty. Low population growth is an important cause of this. At the same time, China's rich have become even richer and the country's internal inequality has increased substantially. China has 251 dollar billionaires, while about 150 million Chinese live below the country's national pov-

Box 1.3 The Miser Index

Economists Jo Thori Lind and Kalle Moene have developed the Miser Index, which is a way of calculating how much the rich would have to be taxed in order to eradicate poverty. The less it would take, the more miserly a society is. The world has become about 50% more miserly in recent years. In 1975, extreme poverty could have been eradicated globally by introducing a tax of about five per cent on the income of the rich. Thirty years later, this could have been achieved through a tax rate of well below two per cent. The countries with the highest Miser Index scores are large middle-income countries such as South Africa, Argentina, Mexico, China and the Philippines. Only one of the top countries is a low-income country, namely Zimbabwe.

¹ World Economic Forum, *Global Risks 2013*.

erty line. China has gone from being one of the most egalitarian societies in the world to having the same level of inequality as the USA. This example clearly shows that there is not necessarily a connection between lifting people out of extreme poverty and reducing inequality.

Consequences for Norwegian development policy:

1. In low-income countries that themselves are seeking to achieve social development with low levels of inequality, we can actively engage in direct dialogue with the authorities and use aid strategically to target concrete measures that will increase sustainable growth and improve distribution. This includes job creation, taxation systems and welfare policy. Experience shows that it is easier to establish the principles for better distribution while differences are relatively small than to wait until differences between people have become great. It is easier to distribute than to redistribute. At the same time, we will continue with many of the policies that we know contribute to combating poverty, for example strengthening the health and education sectors.
2. In our dialogue with the governments of middle-income countries, we will draw more attention to the fact that these countries need to prepare for the time when they will no longer receive international aid. They will have to take greater responsibility for ensuring that their citizens receive the services and welfare they are entitled to. In countries with good economic growth, prioritised areas of support will be the promotion of decent work, social dialogue and civil society, which will contribute to growth benefiting the whole population. Some of these countries are rich in resources that can form the basis for economic development. Norway has unique experience, particularly in natural resource management, and this experience is in high demand in many countries that are experiencing rapid economic growth. The Gov-

ernment wishes to improve its capacity to offer this kind of aid to countries that take steps to promote a more rights-based development with an emphasis on transparency and democracy.

3. In countries with authoritarian regimes where discrimination and secrecy are rife, it will be more difficult and problematic to cooperate with the authorities to ensure more fair distribution. In such countries, the Government will prioritise cooperation with agents of change in civil society.
4. In the international arena, the Government will seek to draw greater international attention to the distribution issue and better enable UN agencies and multilateral financial institutions to promote good strategies.

1.2 Who are the poor?

Being poor does not simply mean having a low income – it also means being unable to meet one's fundamental needs. Poverty is linked to the lack of access to essential services and welfare goods, such as education, health services and proper nutrition.

Two regions are “centres” of extreme poverty: according to World Bank figures from 2008, 47.5% of the population of sub-Saharan Africa and 36% of the population of South Asia live in extreme poverty. Together, these two regions are home to approximately 45% of the population of developing countries, but they have a much higher percentage of poor people. Among other things, the regions account for the following proportions of poverty-related challenges:

- 75% of the world's income poverty
- 63% of the world's chronic hunger
- 72% of the children outside the educational system in the world
- 86% of all people living with HIV/Aids
- 94% of the world's malaria-related deaths
- 84% of the world's child mortality (under the age of 5)
- 86% of the world's maternal mortality.

Although there are more extremely poor people in South Asia than in sub-Saharan Africa, Africa's poor are even poorer. The majority of people who have emerged from extreme poverty in recent years live in South Asia. In addition, poverty reduction is expected to be much greater in South Asia than in sub-Saharan Africa in the years ahead. That is why the Government will continue

Box 1.4 Distribution of global wealth

One third of the world's population owns 97% of the world's wealth, or, seen from the opposite perspective, two thirds of the world's population own three per cent of global wealth.

Source: *Global Wealth Report 2011, Credit Suisse.*

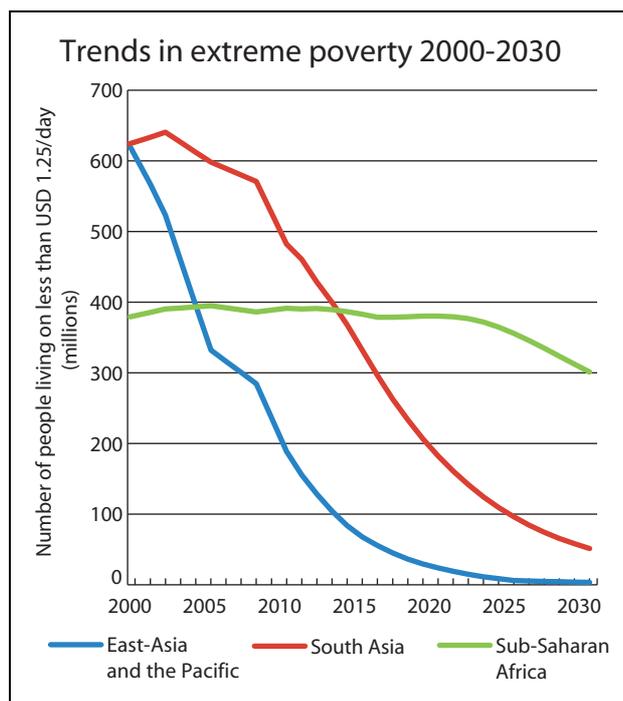


Figure 1.3 Actual and expected development in the number of people who live on less than USD 1.25 per day by region.

Source: Brookings Institution

to prioritise aid to low-income countries in sub-Saharan Africa.

In a 2012 report, Save the Children examined the prevalence of poverty in selected countries.² This report clearly shows how poverty, and particularly child poverty, is influenced by factors such as ethnicity, language and gender. According to the report, inequality affects children more than adults. The report also shows that other indicators used to measure child poverty, such as education and health, are closely linked to geography, ethnicity and other disparities within countries.

The World Health Organization (WHO) and the World Bank's *World report on disability* from 2011 states that people with disabilities make up 15% of the world's population and are among the poorest and most vulnerable groups in the world. Their average level of education is lower than that of the general population, and their labour market participation is below average. In addition, many of them have high health and rehabilitation expenses. The result is that many people with disabilities and their families live in poverty. This is manifested in a lack of food security, lack of

access to clean water and sanitary facilities, and insufficient access to health services.

Extreme poverty is also associated with factors such as prolonged armed conflict and lack of stability in a country or region. The inhabitants of areas where there is a high risk of natural disasters such as floods, drought, earthquakes or hurricanes also have an increased risk of living in extreme poverty.

Cities cover two per cent of the earth's surface, but consume 75% of its natural resources. Since 2008, the world's urban population has been larger than the rural population. Globalisation has been an important cause of accelerated urbanisation, particularly in Africa and Asia. In 2050, two thirds of the world's population will be living in cities, and one in three people, i.e. three billion people, will live in slum areas. Poverty is being urbanised, and we can expect this to be increasingly reflected in international development policies in the years ahead. Most of the population growth in the future will take place in cities in developing countries.

Urbanisation takes many different forms. It is the medium-sized and small cities that are currently experiencing the fastest and most unregulated growth, without the necessary roads, water supply or health or educational institutions being in place. In some places, the urban population is decreasing. Asia is characterised by the emergence of satellite cities around large metropolises. In Africa, it is mostly the capital cities that are growing fastest, while in Latin America, the development is characterised by growth in small cities. Because of the demographic change, the effects of globalisation and the financial, food, energy and climate crises, the accelerating urbanisation processes will be increasingly relevant in the efforts to promote global sustainable development, including combating poverty. Effective urban planning will be far more important in the years ahead. This will require new forms of local and national governance that can contribute to empowering people and help to improve urban living conditions.

1.3 Power and powerlessness

The word democracy means rule by the people. In many countries, ordinary people do not have enough opportunities to hold the elected authorities accountable for their actions. Democracy is not sufficiently developed. There are no serious consequences for politicians who fail to represent

² Save the Children UK, *Born Equal*, November 2012.



Figure 1.4 Accessible jobs enable people with disabilities to participate in the labour market.

Photo: Dieter Telemans/Panos/Felix Features.

the will of the people, and informal elites have more influence over the authorities than the people do. Such elites can go far in order to protect their interests and cultivate alliances with those who hold formal power. This creates fertile ground for corruption and the abuse of power. Power and financial advantages are not redistributed without a fight.

Elites can be national, for example big land-owners or traditionally influential groups, or they can be foreign elites such as international corporations or other representatives of big business.

Managing public resources entails a lot of power. Aid funding also contributes to altering the balance of power between ministries and between the public, private and civil society sectors.

The forms taken by these formal and informal power networks vary greatly, not just between continents, but also from country to country. It is important that our embassies base their work on good analyses and assessments of the national power structures in each country in order to contribute to good dialogue with the authorities and ensure that Norwegian aid funds do not help to shift power away from the voters. The embassies

must maintain close contact with social movements, the social partners and marginalised groups and communities that are not represented in formal forums.

Transparency is a precondition for holding elected representatives accountable to their voters. It is particularly important that there is transparency about tax rules, tax revenues and other sources of public income, and about the use and distribution of funds and the results of such use. It is important that this information is not just aimed at donors or other parties that fund individual measures, but that all such information is publicly accessible. A well-functioning free press is necessary in order to ensure that such information is made public. The internet and mobile phones make it easier to spread such information than before, and, not least, they make it easier to demand that information be made public. Active use of social media such as Twitter and Facebook makes it easier to mobilise the masses, as we saw during the Arab Spring or the anti-corruption marches in India. However, transparency must also apply to the global financial system. Tax havens, bank secrecy and shell companies make it

possible to hide the proceeds of corruption, crime and tax evasion.

At the same time, there are many reasons why the poor do not claim their rights or a more active public distributive policy. The cause may be related to the prevailing political culture. Attitudes, norms and values, belief systems and people's perceptions of reality and of their own role are all potential obstacles. We see this most clearly in poorly developed democracies where the population often do not perceive the state and society as separate spheres. The prevailing social norms can sometimes lead to people accepting that the countries' leaders use their positions of power to further their private interests. This is particularly common in societies in which the leaders' relations with the population are based on friendship, family, ethnic or tribal relations or geographical affiliation.

The reasons can also be found in the various coping strategies that societies have developed to ensure more informal forms of distribution. These can include anything from a religious obligation to give alms, enterprises deciding on their own initiative to provide health services for their employees, life-long employment relationships with rich people who cover the needs of the whole family to the even more traditional forms of distribution in extended families or threats of placing curses on people who fail to share as they should. The tradition of sharing everything with the extended family is an important safety net and bears witness to a traditional distribution culture. However, this practice also has some negative aspects when applied in a modern society. It can prevent small enterprises from growing by eliminating the incentive to generate profits or because the owners do not plough the profits back into the enterprise. It also provides fertile ground for corruption, since people who have secured a position are expected to exploit it for the benefit of their extended family. These forms of informal distribution may work for those who benefit from them, but they all involve a large element of uncertainty. There will always be large groups of people who are left out.

Access to resources, welfare, power and human development often differs between different groups. It is particularly important to identify and help groups that systematically end up in a position of powerlessness. The cause of this can be related to ethnicity, caste, functional impairment, gender, sexual orientation or other factors.

1.4 A rights-based approach to development

The Universal Declaration of Human Rights states that all human beings are born free and equal in dignity and rights. The authorities of each country are responsible for ensuring that human rights are respected. The human rights conventions provide the world with an extensive set of regulations that enjoy wide support and carry considerable clout. They identify the obligations states have in relation to their citizens. Norwegian development policy shall be rights-based.

A rights-based approach to development differs from a more charity-based approach in its recognition that the target group has rights that they can demand to have respected rather than having to humbly beg for help. This approach endeavours to both strengthen the authorities' ability to fulfil citizens' rights and to increase the citizens' knowledge of their rights and their ability to demand that they be respected. This is very important to poor people, not least to vulnerable groups, particularly women, children, people with disabilities and minorities. The weak position of vulnerable groups is a particular challenge in connection with the efforts to promote more fair distribution.

Thematic rights enshrined in international conventions serve as a common normative framework for donor and recipient countries. Examples of thematic rights include the right to education and the right to the best possible health set out in the International Covenant on Economic, Social and Cultural Rights. These rights are discussed in more detail in Chapter 6.3 on health and education. The International Labour Organization's (ILO) fundamental conventions concerning freedom of association and collective bargaining, the elimination of discrimination and forced labour and the abolition of child labour, are other examples. They are discussed in more detail in Chapter 4.5.

In addition to thematic rights, the principles of non-discrimination, participation, empowerment, human dignity, transparency, rule of law and accountability are overarching principles of a rights-based approach in all sectors. By basing our work on these principles, we help to ensure that all groups and social classes are taken into consideration and given an opportunity to participate. At the same time, this improves access to information that makes it possible to hold the

Box 1.5 Long-term fight against homophobia

When two men married in Malawi's biggest city Blantyre in late 2009, it caused a stir far beyond their home country's borders. An old colonial statute was activated, and the men were arrested and sentenced to 14 years' imprisonment. There were few negative reactions to the conviction in Malawi, but international protests poured in. During a visit by UN Secretary-General Ban Ki-Moon a few weeks later, the president agreed to release the two men. This sparked a public debate that has led to substantial progress in just a few years, even though the vast majority of the country's population still regard homosexual relationships to be repulsive.

When Joyce Banda took over as president in April 2012, one of her first tasks was to abolish laws introduced by her predecessor that could be used to limit fundamental freedoms. She did not propose the immediate repeal of the prohibition on homosexuality, but started a broad consultation process with the population on the issue. There was still massive opposition to legalising homosexuality. Any attempt to get the national assembly to change the law would be counter-productive. Instead of amending the law, she declared that no homosexuals were to be arrested under the law in question for as long as she remained in power.

Homophobia is strong in the country, bolstered by the influence of American evangelical churches, but that does not mean that no progress is being made on the issue. A topic that used to be taboo is now discussed in the media and at universities. Long-term efforts appear to be paying off. There are still very few homosexuals who dare to be open in public. There is a long way to go, but the country has started on the long road towards freedom and equality in this area.



Figure 1.5 There is no age limit on the right to education.

Photo: UN Photo/Christopher Herwig.

more fair distribution. Equality before the law and equal access to public services and welfare goods are fundamental preconditions for fair distribution. Knowledge and understanding of the causes and consequences of direct and indirect discrimination will play a key role in developing effective strategies to combat injustice and the unequal distribution of power and resources in society.

Among other things, the principle of non-discrimination is about reaching individuals in remote areas and people who live in societies and cultures with different views on rights and obligations. This is demanding work in terms of resources, but it reflects the fact that everyone has the same rights and is a cornerstone of the effort to achieve more fair distribution. This approach also produces more sustainable results and strengthens democratic development.

Although the principles have general applicability, they are also linked to specific rights in the human rights conventions. In principle, citizens should be able to bring matters relating to these rights before the national courts. Article 26 of the International Covenant on Civil and Political Rights sets out a general rule concerning non-discrimination and equal protection of the law. In addition, the Covenant reiterates freedom of speech as well as freedom of organisation and assembly. These rights are also of crucial importance to a sustainable democracy, and they are discussed in more detail in Chapter 3.

The Government considers a rights-based approach to development to be a necessary, but not sufficient condition for achieving fair distribution.

state and other actors accountable for their decisions.

The principle of non-discrimination and equality is particularly important in the efforts to pro-

Women and gender equality

Our experience from Norway shows that the work of individuals and organisations to promote women's rights and equality, together with political will, has played a crucial role in the improvement of women's position in Norway. Norwegian women's labour market participation has increased from just under 50% in the early 1970s to more than 75% today. This is 16 percentage points above the average labour market participation rate for women in industrialised countries in the OECD (the Organisation for Economic Cooperation and Development). If Norwegian women's labour market participation rate were to decrease to the OECD average, the resulting production loss would correspond to the value of our entire oil wealth. The World Bank's World Development Report (WDR) for 2012 confirms that gender equality and improved access for women to rights, resources and influence contributes to economic growth as well as to poverty reduction. In a nutshell, it is smart economics to promote women's rights.

Women have less power, less economic capital, fewer opportunities and less freedom than men. The role of women is to a large extent family-related, and labour market participation remains low in a global perspective. Globally, fewer than half of all women are in paid employment, compared with 80% of all men. Women earn considerably less than men, and this difference cannot be fully explained by their education, experience or the sector in which they work. One of the greatest injustices in the world is the unequal distribution of power, goods and opportunities between the genders. Women experience discrimination in all countries, although its form and extent vary. There are poor countries that have come far in terms of equality, and there are rich countries where gender equality still is far off.

Violence against women is a serious problem in all countries. This violence contributes to reinforcing and reproducing the power imbalance between the genders. Surveys show that societies that undergo rapid social and economic change also experience a rise in violence against women. When women challenge norms relating to social roles, this is all too often met with violence. The gender perspective is a fundamental consideration in a policy for fair distribution. The underlying social, economic, cultural and political structures that maintain inequality will vary from country to country.

Women's rights are universal and recognised by most states in the world through membership of the UN and ratification of the general and more specific human rights conventions and instruments. All but six UN member states have ratified the Convention on the Elimination of All Forms of Discrimination against Women (CEDAW). However, many countries have ratified the convention subject to reservations, citing national historical, religious or cultural traditions as justifications for weakening the human rights of women. Such traditions do not exempt states from their responsibility for treating men and women equally and giving them the same rights and access to society's resources. Human rights prohibit discrimination on grounds of ethnicity, gender and religious affiliation, among other things. Women's rights are under pressure globally. Women and girls are discriminated against and harassed for being women and girls.

Gender equality and fair distribution between the genders are not dependent on a country reaching a certain stage of development. In fact, the opposite is the case – fair distribution from this perspective helps to promote growth and development. A state cannot evade its responsibility for ensuring fair and gender-neutral distribution by claiming that it "cannot afford it". It cannot afford not to.

Women must take power and seize the opportunity to take their rightful place in development processes – on a par with men. Development depends on women's resources and competence being fully utilised. In order to contribute to this, the Government will make the gender perspective a key element in its work to promote democracy, job creation and improved management of natural resources.

People with disabilities

Norwegian development policy is rights-based. While every country has a responsibility to safeguard the rights of its citizens, Norway's development policy shall emphasise and support this work in national and international dialogue. Norway directly supports the efforts to promote the rights of people with disabilities, for example by supporting interest groups. Promoting the rights of people with disabilities will be a particular priority in relevant areas, such as support to the education sector, humanitarian aid, health sector support and support to gender equality and women's rights.



Figure 1.6 The topics of this white paper.

The topics of this white paper

Some aid, both Norwegian and international, makes a substantial contribution to improving health, reducing maternal and child mortality rates, increasing life expectancy and improving the provision of education. Our aid and our development policy also help to make everyday life safer and better for people in many other areas, and put societies in a better position to take responsibility for their own development.

Report No 13 (2008–2009) to the Storting *Climate, Conflict and Capital*, cf. Recommendation No 269 (2008–2009) to the Storting sets out the framework for the overall development policy, while Report No 10 (2008–2009) to the Storting *Corporate social responsibility in a global economy*, cf. Recommendation No 200 (2008–2009) to the Storting, Report No 11 (2007–2008) to the Storting *On Equal Terms: Women's Rights and Gender Equality in International Development Policy*, cf. Recommendation No 233 (2008–2009) to the Storting, Report No 14 (2010–2011) to the Storting *Towards greener development*, cf. Recommendation No 44 (2010–2011) to the Storting, Report

No 11 (2011–2012) to the Storting *Global health in foreign and development policy*, cf. Recommendation No 300(2011–2012) to the Storting and Report No 33 (2011–2012) to the Storting *Norway and the United Nations: Common Future, Common Solutions*, cf. Recommendation No 200 (2012–2013) to the Storting, examine topics within this field in greater depth.

In this white paper, the Government announces a stronger focus on sustainable growth and fair distribution within countries. The objective is to more effectively combat poverty and reduce inequality. In order to achieve this objective, the Government will place greater emphasis on sustainable management of the environment and natural resources, job creation, fiscal and financial management, human rights, democracy, transparency and the fight against illicit financial flows and tax havens.

1.5 Financial and administrative consequences

This white paper does not replace Report No 13 (2008–2009) to the Storting *Climate, Conflict and Capital*, cf. Recommendation No 269 (2008–2009) to the Storting, which represents the overall development policy and principles that currently apply to Norway's cooperation with developing countries. Within the broad analysis found in Report No 13 (2008–2009) to the Storting *Climate, Conflict and Capital*, the Government wishes in this white paper to highlight, specify and operationalise its policy for promoting fair distribution within countries.

The white paper signals a shift in how aid is allocated, a shift towards measures that promote sustainable economic growth and fair distribution within countries. All measures discussed in the report fall within the current budgetary framework. All Norwegian aid is administered in accordance with OECD-DAC (OECD's Development Assistance Committee) guidelines.

2 International discourse and lessons learned

The international development debate is subject to changing emphases. In the 1990s and the early years of the new millennium, focus on the social sectors dominated. Since then, the belief that economic growth will gradually lift the masses out of poverty, an idea that was also widespread during the infancy of development aid in the 1950s and 1960s, has become more prominent. In recent years, the terms “equity” and “equality” have climbed higher up the agenda – in recognition that fair distribution will not come about on its own. The current debate is increasingly characterised by an understanding that social development must strike a balance between access to social services, sustainable economic growth and fair distribution. The Nordic model is seen by many as a role model for such balanced development. The model combines a dynamic private sector with a labour market characterised by a high degree of equality and social protection. It has evolved through a historical process of conflict and cooperation, and cannot necessarily be transferred to other countries. Each country must find its own solutions, and for some, the Nordic model can serve as useful inspiration.

2.1 From pro-poor to inclusive growth

The publication that really put the concept of equality on the global agenda was the World Bank’s World Development Report for 2006, *Equity and Development*. It defined “equity” as equality of opportunity and avoidance of deprivation in outcomes, without defining clear limits.

The report concluded that there is not necessarily a contradiction between policies to promote growth and policies to promote equity, as the World Bank and many others had previously assumed. The experience of the Nordic countries, where greater equality has bolstered rather than impeded long-term economic growth, contributed to this acknowledgement.

The change in the World Bank’s approach to distribution has been ground-breaking in the

international development policy context, not least in relation to the World Bank’s own policy.

The report recognised that equity is about fairness, and that many people consider this to be a goal in itself. The main goal, however, was to show how equitable access to social and political opportunities contributes to economic growth and development.

The connection between equity and prosperity was explained with reference to two processes in particular. Firstly, inequalities in power and wealth will translate into unequal opportunities as long as the capital, land and labour markets do not function perfectly. Secondly, inequitable distribution of political and economic power leads to institutions that serve the elite and reinforce inequalities. Both these processes result in poor utilisation of resources and society’s productive potential.

The connection between unequal distribution of wealth, opportunity and political power results in a self-reinforcing process. Financial, political, social and cultural inequality is reinforced and reproduced over time and across generations. This results in poverty traps that are difficult to escape.

Income was primarily discussed in relation to its effect on opportunities. The report refers to income inequality as being important with respect to creating incentives to invest in education and physical capital, working and taking risk, and that, in the short term, there may be trade-offs between equity and efficiency. At the same time, however, short-term efficiency considerations can be given too much weight in relation to the long-term benefits of a more equitable society.

“Equity” has become a widespread term internationally. Few disagree as long as we are talking about equal opportunities and protection from extreme deprivation, without further specifying these concepts. The controversy partly concerns what is meant by “equal opportunities”, and partly whether large income disparities are viewed as negative in their own right.

The 2006 World Development Report did not address income disparities to a sufficient extent. There is no contradiction between discussing

Box 2.1 The Spirit Level

Richard G. Wilkinson and Kate Pickett's book *The Spirit Level* from 2009 moved from the issue of equal opportunities to examining the significance of a more equal distribution of income. Using statistics from a range of countries, they show that there is a correlation between internal income disparities in a country and life expectancy, health and social conditions. They found no corresponding correlation with GNI per capita. This means that the population of countries with a higher average income do not necessarily have a higher life expectancy or better health than the population of countries with a lower average income, but that countries with greater income disparities consistently have lower life expectancies and poorer health situations than countries with less income disparity.

The Spirit Level has been criticised, among other things, for selective use of statistics, for focusing exclusively on inequality in terms of income and for leaving some countries out of the analyses. The book has nevertheless contributed to sparking debate on inequality within countries.

equal opportunities and more equal income distribution. However, those who focus exclusively on equality of opportunity run the risk of underestimating the negative impact of high income disparities on quality of life and opportunities.

It must pay off for people to work, invest and take risks. At the same time, the Government believes that most countries would benefit from reducing inequality, both in income and in opportunities in general. Good safety nets and less income inequality increase labour market mobility and decrease the stress caused by restructuring processes by decreasing the risk and the severity of the consequences.

Increasing inequality has also been a matter for discussion in the OECD for several years. The organisation has carried out studies of social cohesion in emerging economies that show that economic growth does not automatically result in better living conditions for the majority of the population. If the trend towards increasing inequality is to be reversed, targeted policies will have to be pursued.

On this basis, the OECD and developing countries have cooperated on the creation of an analytical tool for redistributive policy. The goal is to help developing countries to identify gaps between national redistribution goals and the country's policies. The policy areas analysed are taxation, the labour market, education and training, political participation and social safety nets. Particular emphasis is placed on geographical, ethnic and gender-related inequalities, and how they affect social cohesion. Necessary changes are discussed on the basis of the analyses.

The term *pro-poor growth* was introduced at around the same time as equity became a main topic in the development debate. The goal was that economic growth should benefit the poor to a greater extent. Particular focus was placed on measures aimed at creating jobs and promoting economic growth among poorer segments of the population, and on linking up poor areas with economic growth areas, among other things through infrastructure development.

Pro-poor growth has now largely been replaced by the term inclusive growth, cf. Chapter 7.1. Inclusive growth emphasises that new jobs are not usually created by the poorest people, and that reducing extreme poverty is not the only goal. The aim is also to create a growth dynamic that improves the standard of living of those who have only recently emerged from extreme poverty and make them less vulnerable.

Inclusive growth is primarily about creating jobs. Employment in low-paying parts of the production chain provides opportunities to escape from extreme poverty. This group will remain vulnerable to economic downturns and crises. Many of those who have emerged from extreme poverty live just above the poverty line of USD 1.25, with an income of less than USD 2 a day. Therefore, transfers and public services will both be necessary elements in an inclusive growth strategy.

The Government's development policy emphasises that economic growth must be sustainable and within environmental limits. Otherwise, growth will undermine the natural basis for future growth and prosperity through the depletion of natural resources, pollution, greenhouse gas emissions and loss of biodiversity. The Government also emphasises that growth is not economically sustainable unless it also contributes to increased social equality.

The OECD and the United Nations Environment Programme (UNEP) have played an important role in the efforts to promote a "green economy" and "green growth". These terms are used

to ensure that environmental considerations are also addressed when discussing growth. In the process leading up to the United Nations Conference on Sustainable Development in Rio de Janeiro in 2012 (Rio+20), the term “green and inclusive growth” was also highlighted by several parties in order to emphasise the importance of the social dimension of a green economy and green growth. These terms describe practical strategies or approaches to achieving sustainable development in all three of its dimensions: economic, social and environmental sustainability.

2.2 After the Millennium Development Goals – new goals for old and new challenges

The time frame for achievement of the Millennium Development Goals (MDGs), which have served as a guideline for international development policy in the past decade, expires in 2015. Like other countries, Norway will emphasise achieving the goals within the deadline.

MDG 1 states that the proportion of the world’s population living in extreme poverty and

suffering from hunger is to be halved. Even if this goal is reached, the fight against poverty will be far from over. The changes are based on percentages, and there will still be several hundred million people living in extreme poverty if the goal is reached. Many countries will find it difficult to achieve several of the MDGs, and some countries, particularly fragile states, will not achieve any of them. Much work remains to be done.

The UN has therefore initiated an extensive process to define a new set of goals for the period after the expiry of the current MDGs, known as the Post-2015 Development Agenda. The new goals are expected to be adopted at the UN high-level meeting in 2015.

There is broad international agreement that the new goals must encompass the great changes the world has seen in the past decade. The growth seen in many traditional developing countries, together with the economic crisis in many traditional donor countries, will be highly significant. Many countries, including Norway, claim that countries’ ability to mobilise national resources through different forms of taxation and other domestic redistributive policies must be incorporated into the new goals. Aid shall and will con-



Figure 2.1 A global partnership for development will still be needed after 2015.

Photo: UN Photo/Eskinder Debebe.

tinue to be an important source of funding for development, but it must be complemented by policies aimed at strengthening the authorities' ability to ensure the welfare of their own citizens.

Norway is co-chair of the international consultation process on new goals in the energy sector. The Government will also work to ensure that the distribution aspect, as well as the gender perspective, are fully integrated in the new agenda.

The outcome document from Rio+20 states that an intergovernmental process will be launched with a view to developing a set of universal Sustainable Development Goals (SDGs). An open working group has been established, which will submit its report by September 2014. Norway shares a seat in this group with Ireland and Denmark.

Many view the sustainability discussion as only being related to the environmental aspect, but the sustainability concept entails a policy that integrates economic, social and environmental considerations. Most of the current MDGs deal with social dimensions, while little account is taken of the environmental aspect. It is important to the Government that the new SDGs integrate all three dimensions of the sustainability concept. Topics such as sustainable access to energy for all and improved food security must be important elements in the goals.

Two processes are taking place simultaneously to develop the new goals. The ambition is to end up with one set of post-2015 goals, and the two processes must therefore be merged well before 2015.

2.3 The Nordic model

The Nordic model has become a well-known concept internationally.¹ There is great interest in the Nordic experience of a well-functioning labour market and a highly developed welfare state in many developing countries. This does not necessarily mean that other countries can import the Nordic model in whole or in part, nor is it obvious that they should even try to do so. Nevertheless, countries can use it as a source of inspiration, and it is therefore important to understand how and why the model evolved. The model is the product of political conflict as well as cooperation, and the result of many choices made on a long historical

¹ The model is also sometimes called the Norwegian or Scandinavian model.

road stretching from the interwar years to the present.

Although there are variations between the Nordic countries, overall, the Nordic model can be said to be characterised by the extensive use of collective solutions, a good social safety net and equitable income distribution. Experience from the Nordic countries show that a model of this kind is consistent with low unemployment and high restructuring capacity. Centralised national trade unions and employer organisations, coordinated wage formation and income policy cooperation are all important features of the model, cf. Box 2.2

Relatively extensive research has been conducted in recent years to determine what mechanisms can help to explain the success of the Nordic model.² It has been pointed out that solidarity bargaining reduces wage differentials. The same is true of moderate wage settlements and a political commitment to maintain full employment and



Figure 2.2 Women's entry into the labour market has played an important role in the development of the Norwegian welfare system.

Photo: Arbeiderbevegelsens arkiv og bibliotek.

Box 2.2 The emergence of centralised wage negotiations in Norway

Some important characteristics of the Nordic model were the result of more intense competition in the world economy in the 1930s. Trade unions in industries exposed to competition had to accept substantial wage cuts for their members because of the economic crisis. They wanted to prevent wage increases in other, more sheltered sectors, as this would increase everyone's living expenses and could also increase costs in the export industries, thereby posing a further threat to jobs in those industries. How could an increase in public expenditure in order to stimulate the economy be prevented from resulting in higher wages for people with secure jobs instead of increased employment?

The solution to this problem took the form of a coherent approach based on centralised wage negotiations. The foundations were laid during the 1930s, and the strategy was institutionalised in the term "solidarity wage bargaining" in the 1950s. This resulted in a dramatically compressed wage structure. Although an egalitarian wage distribution fits well with the socialist legacy of the Scandinavian trade unions, the arguments put forward in favour of solidarity wage bargaining were based on efficiency considerations rather than equality. As early as in the 1950s, economists argued that greater wage equality through solidarity wage bargaining would lead to a positive development by increasing wages in enterprises and industries with low productivity while limiting wage growth in enterprises and industries with high productivity.

offer full insurance through universal welfare schemes for all citizens, not just the worst off.

Research on the good economic results produced by the Nordic model often describes the way in which society is organised as a state of equilibrium in which the institutions and policy

² The University of Oslo has established a dedicated research centre for the study of equality, social organization, and performance. Relevant research is available on the centre's website at www.sv.uio.no/esop.

Box 2.3 Mozambique: Great interest in the Nordic model

Mozambique is in a position to substantially increase its income in the years ahead. Recently, some of the largest gas deposits in the world were discovered off the coast of the country. Moreover, Mozambique is stepping up its extraction of coal and other minerals. But how can it be ensured that these revenues are used for the good of the whole population, and do not disappear out of the country or just benefit the elite

In order to answer this question, the Nordic embassies in Maputo organised a conference in 2012 on inclusive growth and experience of such growth in Denmark, Finland, Iceland, Sweden and Norway. The conference's recommendations were clear: the key is to ensure transparency in the management of natural resources, strengthen the role of parliament, establish genuine social dialogue, invest in education and training, and facilitate fair distribution of public goods. Norway's experience of social development over more than 40 years of oil extraction attracted particular interest among the more than 300 delegates.

formation are mutually reinforcing. The relatively small wage differentials increase political support for universal welfare schemes. At the same time, the welfare state strengthens the bargaining positions of weak groups in the labour market, and defines an implicit lower limit on wages. Low unemployment is important in order to achieve broad participation in the funding of an extensive welfare state and to keep expenditure on unemployment benefits low. An extensive welfare state makes it easier to achieve the job mobility required to maintain close to full employment. It is a fundamental principle to ensure security and stable living conditions without this being at the expense of flexibility and restructuring capacity.

One of the key elements in the Nordic model is the tripartite cooperation between representatives of the employers, the employees and the State. This cooperation covers not only wages, but also capacity-building measures, welfare goods and working conditions in the broadest sense. Collective bargaining and tripartite cooperation

Box 2.4 China is taking increasing inequality seriously

China's economic miracle in the past three decades has also had a dark side, namely the large and growing disparities in income and standard of living. The Chinese authorities have therefore shifted their focus away from pure economic growth towards a more sustainable growth rate with the emphasis on distribution and more social equality. This is reflected in the authorities' five-year plans and follow-up policies, in which distribution between urban and rural areas and redistribution between China's underdeveloped western regions and the wealthy coastal regions in the east are at the top of the agenda. Frequent mass protests as a result of social inequality and increasing dissatisfaction confirm that the authorities are under pressure to translate their policies into concrete results.

In their work on developing their welfare and distributive policies, the Chinese authorities have shown an interest in other countries' models and experience, and various Norwegian and Chinese partners have communicated and cooperated for several years. China has been particularly interested in Norway's experience of regional development, the development of public welfare goods, tripartite cooperation and Norway's expertise in combining a market economy with social policy.

have gradually built trust and respect between the parties, as well as acceptance of the fact that compromises are necessary.

It has been pointed out that the compressed wage structure results in low-earning enterprises going out of business, while high-earning enterprises grow stronger. In decentralised collective bargaining systems, wages vary with enterprises' productivity. Coordinated wage bargaining prevents enterprises with low productivity from setting low wages and thereby forces them to reduce the number of employees. At the same time, employees in highly productive enterprises and industries are prevented from taking a share of the proceeds of high productivity in the form of higher wages. This steers labour and capital away from enterprises with low productivity and towards highly productive enterprises. This

improves efficiency and production overall, and reduces wage differentials.

The other key element of the Nordic model is a welfare state based on universal benefits. The welfare schemes were developed through political decisions over a long period of time as the result, among other things, of strikes and conflicts. The system comprises many schemes that are intended to prevent people from falling below a minimum material standard of living.

Equal opportunity is promoted by means of substantial public investments in subsidised day care centres for children, a good-quality, free public education system and a system for financing higher education.

The Nordic countries have taken deliberate steps to promote gender equality, and have achieved a high degree of equality compared with most other countries. Women's labour market participation has been of great economic importance. This is partly the result of child care and housework having gone from being unpaid work outside the national economy to becoming part of the gross national income, but it is primarily because the potential of women has been unlocked. Giving everyone equal opportunities results in an efficiency gain because more people work and pay taxes, and because tasks are carried out by the best qualified people, regardless of gender, age, family situation or social status.

To sum up, the Nordic model is the product of our society, the historical context, political choices and political conflicts. The fact that the Nordic countries are relatively small and homogeneous has contributed positively to the development of the Nordic model. The Nordic countries have not been dominated by extreme and changing ideologies, but have instead moved towards a relatively stable balance between public and private engagement.

The challenges facing developing countries in connection with the introduction of systems that ensure a small wage differentials and good social insurance are not merely of an economic nature – there are political and institutional challenges as well. It is not a given that the leaders of the different countries are interested in introducing such systems. Where there is an interest, however, the Nordic model can serve as inspiration for these countries to negotiate their own solutions.

In Norway's case, it was the economic crisis in the 1930s that triggered increased cooperation and collective solutions. Political leaders in developing countries can make use of the freedom of manoeuvre that arises, for example in a crisis, to

see new possibilities and promote change. It is more difficult to agree on collective solutions in big countries with great inequality and conflicting interests than it is in relatively small and homogeneous countries.

The Government will establish a network of relevant actors from the public sector, the social partners, academia and civil society. This network's expertise will be available to countries that are interested in learning more about the Norwegian experience of welfare and distribution policy.

2.4 Experience from countries that have succeeded in reversing great inequality

Latin America is the continent with the greatest inequality. The roots of this inequality go back to colonial times and are related to the inequitable distribution of land and to structures that have maintained the social and economic exclusion of large sections of the population together with extremely low levels of social mobility. At the same time, it is also the only continent that has seen a reduction in inequality in a majority of

countries during the past decade. It may be natural for a continent with such a poor starting point to show particularly visible progress, but there is no doubt that the reduction in inequality has come as the result of a deliberate policy whereby substantial resources have been invested in achieving change. This is an important reason why China is also taking inspiration from measures implemented in Latin American countries to achieve more fair distribution. Experience from the Latin American countries, among others, could be of interest to more developing countries. The Government will finance South-South cooperation on the exchange of experience of distribution and welfare policies.

Reduced inequality in a society is the result of many factors. It is therefore difficult to describe the effect of one particular policy or measure. However, there are some general features of developments in Latin America in recent years that appear to be highly relevant. Several years of economic growth have contributed to increased demand for labour, including unskilled labour. At the same time, there has been a strong and systematic focus on education, with improved primary school coverage for poor groups. Illiteracy has



Figure 2.3 Social change does not come about without a struggle. The mural gives a glimpse of Latin America's history.

Photo: Ministry of Foreign Affairs/Svein Bæra.

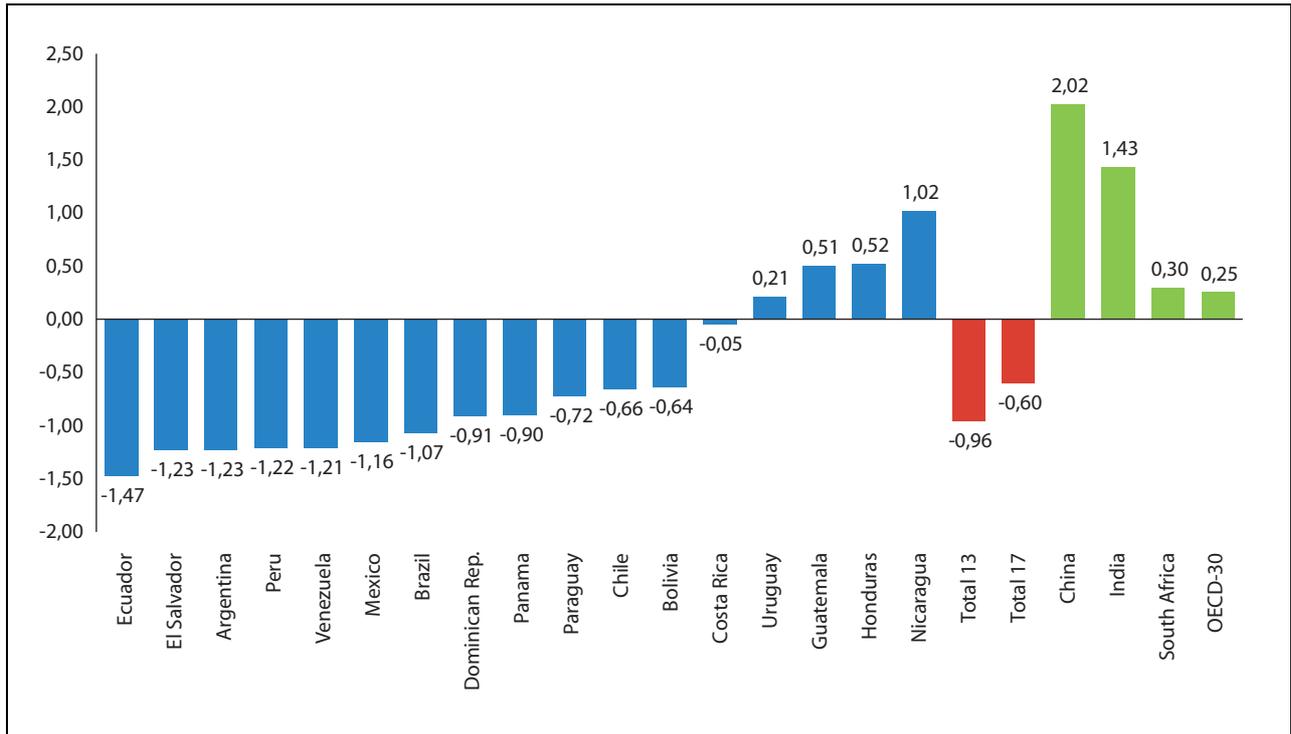


Figure 2.4 Average percentage annual change in the Gini coefficient in Latin America compared with a selection of other countries, 2000–2010. Negative figures mean that inequality has decreased.

Source: Source: Declining Inequality in Latin America in the 2000s: The cases of Argentina, Brazil and Mexico. Lustig, López-Calva and Ortiz-Juarez, *World Development* (2012).

been reduced, and the number of skilled workers has increased. The result is a general increase in employment in the formal sector, a key factor in the reduction of inequality.

These factors do not explain all of the progress made, however. Extensive and progressive transfers of government funds to marginalised groups have been an important supplement in an otherwise favourable macroeconomic situation. Conditional cash transfers are one measure that has often been emphasised in this context. The first programme of this kind was introduced in Mexico, and similar programmes have since been introduced in countries such as Argentina, Brazil, Chile, Peru, Venezuela, Bolivia and Ecuador. The social programme *Bolsa Familia* (family grant) is the best-known example, see Box 6.3 for a description.

A study of the income situation in Argentina, Brazil, Peru and Mexico over the past decade points out that, in addition to cash transfers, the reduction in the wage differential between skilled and unskilled labour has been an important factor in reducing inequality. This reduction is in turn the result of measures such as an increased minimum wage, targeted investments in primary

school education and subsidies paid to poor families to send their children to school. For the measures to be effective, in other words, a coherent policy, in which the different components underpin each other, is necessary. A political agenda and clear priorities that are communicated externally are also important preconditions for success.

Political ownership of these measures is the result of demand among voters for a policy for more equality and poverty reduction. Several governments have been re-elected on such programmes. Part of the reason for this stems from the 1980s and 1990s, when the financial institutions demanded restructuring of the economy, which resulted in privatisation and liberalisation. Poverty grew despite economic growth in the 1990s, and the trickle-down effect failed to materialise.

The progress towards reduced inequality in Latin America will not continue by itself, but will require continued focus and an explicit political will. Democracy and human rights must be further strengthened. Strong regulation and a redistributive policy have been crucial in the countries that have succeeded in reversing the trend. Not all Latin American countries have seen such prog-



Figure 2.5 The provision of day care centres for children, as shown here from Colombia, is a precondition for women's labour market participation – which, in turn, is crucial to the development of a welfare state.

Photo: Ivan Kashinsky/Panos/Felix Features.

ress, however. In some countries, regulation has often been too expansive while growth has been weak. It is also important, therefore, to understand how distributive policies have failed to produce the desired outcomes in some Latin American countries.

Various international organisations can set the agenda and support national measures. The Economic Commission for Latin America and the Caribbean (ECLAC) is a key development actor in the region. It represents an important voice and agenda setter in relation to reducing poverty and inequality. This organisation, with its long-term perspective and political support among Latin American countries, is well placed to promote distributive policy at the regional level. ECLAC works to promote structural changes in production systems and improve labour market regulation, including collective bargaining systems, and clearer taxation policy measures. These components are also relevant to the work of other multilateral actors. Norwegian support for ECLAC, which aims to strengthen the organisation's capacity to influence policy formation and to assist

countries with policy implementation, is regarded as a strategic effort.

The Community of Latin American and Caribbean States (CELAC) was established in 2010 in order to strengthen integration between its 33 member states. CELAC works on issues relating to inequality and social development, and the Government will initiate collaboration with the organisation.

The Government will:

- work for the integration of issues relating to fair distribution and the gender perspective into the new international agenda for post-2015 development goals, and will take particular responsibility for the integration of energy issues into this agenda
- establish a Norwegian network that can share Norway's experience of distribution and welfare policy with interested countries
- finance South-South cooperation on exchange of experience of distributive and welfare policies

- enter into cooperation with the Economic Commission for Latin America and the Caribbean to strengthen its capacity to assist countries in the region in their redistribution efforts
- take an initiative vis-à-vis the Community of Latin American and Caribbean States on collaboration and dialogue on distribution issues.

3 Democracy

There is a close link between the distribution of economic goods and the distribution of political power. The distribution of political power in a society over time will have a decisive effect on the distribution of economic goods, and a minimum distribution of economic assets is a precondition for democratic political organising. Democracy and human rights are also interdependent. Chapter 1.4 discusses rights-based development policy in more detail.

Historically, the emergence of democracy has been closely linked to two parallel developments: the reduction of hunger and extreme poverty and the growth of the middle class. The distribution of political power has taken place in step with the spread of prosperity and knowledge to increasingly large segments of the population. There is a

clear link between economic resources and education and the democratic distribution of power. An authoritarian state has never become a democracy without the opposition having demanded a greater share of power through active political action. Such action requires resources in the form of political knowledge, organisation and funds.

3.1 More emphasis on democracy in the aid context

The connection between democracy and economic growth is debated. However, there is extensive research indicating that democracy promotes economic growth. This seems to be particularly true over longer periods. There is no empirical



Figure 3.1 Aung San Suu Kyi – a lifelong struggle for democracy.

Photo: Pietro Masturzo/OnOff Picture. From the Nobel Peace Center's exhibition Mother Democracy.

Box 3.1 The Arab Spring

“Democracy! Freedom! Dignity!” were the slogans shouted by the crowds that filled the streets and squares of Arab countries during the winter and spring of 2011. Young people and women led the protests. They mastered the new social media, and used Facebook and Twitter to coordinate and mobilise people and spread information about the protests. It wasn’t called “the world’s first Facebook revolution” for nothing.

The poor masses joined forces with middle-class youth. They were no longer willing to put up with authoritarian regimes, corruption, brutality and human rights violations, and they rebelled against an everyday life characterised by oppression, poverty, unemployment and hopelessness. They demanded what we take for granted – elected political leaders who are accountable to the people, democracy, freedom, dignity, hope. The Arab Spring also inspired people outside the Arab countries, and demonstrated the explosive power of people demanding their rights.

The ongoing processes of change in the Arab world are fundamental in nature, and they will take time. It is difficult to predict the end result. There are many forces at play, not least in connection with the many ongoing religious conflicts. There has been a strong focus on free

elections. Strict religious parties have received many votes and become important political forces in many countries. Liberal and secular forces are increasingly worried that “their” revolution will have a different outcome than the one they have fought for. In any case, elections are just a beginning. Real democratisation is contingent on society changing in fundamental ways, particularly as regards education, economic opportunities, legal reform and institutional development. Constitutional reform is the most important issue in many countries right now, and an arena for confrontation between different values and interests. Women and minorities are in a particularly vulnerable position.

Although, historically, democracy has proven to form the best basis for stability and prosperity, the road to democracy is full of stumbling blocks and setbacks. The situation differs from country to country. Each country has its own history and conditions and must find its own form. Others must support the forces that are pulling in the right direction, support them on their own terms, with patience and a realistic attitude, while at the same time having clear expectations of respect for universal human rights and fundamental democratic values.

evidence to support the idea that authoritarian regimes in general grow faster than democracies, although China is often cited as an example. Democratic countries can experience lower economic growth than the fastest growing authoritarian economies, but their growth is usually more robust, and the democratic economies are better equipped to tackle economic crises. Research also indicates that there is a connection between more democracy, the protection of property rights and increased foreign investments in the least developed countries.

Once democracy takes root in a society, economic goods tend to be more evenly distributed than in autocracies. Democratic mechanisms in a functioning democracy mean that leaders who fail to live up to their voters’ expectations will have to relinquish power. In such situations, more segments of society will benefit than before. This is not automatically the case, however. There are examples of democracies where the distribution of economic goods is becoming increasingly

unequal, and of autocracies where the distribution is relatively fair. However, democratic elections, a free press and a free civil society can contribute to putting an end to such unequal distribution.

The Government will use bilateral government-to-government cooperation to give priority to supporting countries that show a clear democratic development. Channelling aid to more democratic regimes will result in more development for the money spent.

The Government wishes to raise awareness of the risk of aid being used to maintain or intensify authoritarian trends. Good analyses of the state of democracy must be conducted in advance. The degree of democracy will therefore be given even more weight in the prioritisation of bilateral aid.

It is demanding to assess a country’s democratic development, as it is rarely linear, and even a prolonged positive trend will include the odd setback. Countries like Senegal, Malawi and Mali are examples of this. Assessments must be based on a long-term perspective, however. Stopping trans-

fers as a result of temporary setbacks can have negative consequences and result in a country having a poorer starting point when democratic forces return to power. It is therefore important to adopt a long-term perspective when prioritising countries on the basis of democratic development in order to ensure that aid has the best possible effect. Moreover, some countries demonstrate good democratic and human rights practices in some areas, while being very authoritarian in other areas. The Government will base its work on an understanding of such nuances in individual countries. It is crucial that Norwegian embassies have the competence and capacity to assess democratic development over time and to analyse it in relation to the local context.

In countries where the trend is negative, it is important to support democratic forces in civil society, independent media and academia. Support for select government institutions can also be an option, if these institutions are deemed to be important in relation to reversing an authoritarian trend. The risk that aid can in practice further a negative or authoritarian trend must always be assessed. In general, the Government will be extremely cautious as regards engaging in government-to-government cooperation under such circumstances. In specific cases, however, targeted support may be provided for parts of the government administration, for example for human rights training for the police and judiciary, or for capacity-building for supreme audit institutions or other agencies that are deemed to be suited to promoting the rule of law, anti-corruption and human rights. To ensure further quality assurance, such support will be given in cooperation with other donors, often via multilateral channels.

Norwegian aid is part of the Government's overall foreign policy. Norway's involvement is not always limited to promoting democracy, it can also include, among other things, contributing to peace and reconciliation processes. In some cases, this could provide grounds for using aid in a way that might be in conflict with the principle of basing aid on a positive democratic trend.

What is democracy?

Democracy means rule by the people. Various forms of organisation are used to create a system of representative rule on behalf of the people. There is no universally agreed definition of "democracy" that encompasses all the necessary

constituent parts of such a political system. Democracy is a generic term for systems of governance that can function in different ways. They share certain characteristics, however, and fundamental human rights are a particularly important aspect. "Democracy" should be understood to mean a society in which individuals have equal rights and opportunities for political participation. This is more than mere "majority rule", where it is possible for a numerical majority to force its priorities and politics on minorities. A robust democracy requires institutionalised guarantees for equal rights and opportunities to participate, particularly for groups that are traditionally at risk of being politically marginalised, such as women, ethnic and religious minorities and people with disabilities. Several institutions can be established to safeguard these principles. A well-functioning parliament is important, but other institutions must also be in place in order to realise the principle of inclusive political participation. Respect for human rights and upholding the principles of the rule of law are preconditions for democratic institutions.

Many elements influence the climate for democracy in different countries. What may be a positive trend in one country could have a negative effect in another. Economic growth, unemployment, the level of education, history and political culture, as well as the politics of the current government all play a role. Again, it is crucial to understand the local context.

Because of the lack of an agreed definition of the concept of "democracy", no international agreement exists about exact criteria on which an assessment of the degree of democracy in a country should be based. Certain fundamental factors are included, however, in most attempts to measure how democratically a society is organised. The Government wishes to highlight the following factors:

1. Real competition between individuals and organisations for political power
2. Inclusive political participation for citizens in the form of free and fair elections and other mechanisms for popular participation and empowerment. Inclusive participation also encompasses potentially vulnerable or marginalised individuals and groups
3. The upholding of civil and political human rights, including freedom of expression, assembly and association
4. The upholding of the principles of the rule of law, i.e. that the state is governed in accordance with the law, that everyone is equal



Figure 3.2 In some parts of the world, the opportunity to exercise democratic rights is not an everyday occurrence. Long queues, dignity and an atmosphere of solemnity marked the referendum on South Sudan's secession from Sudan in 2011.

Photo: UN Photo/Tim McKulka.

before the law and that citizens' fundamental rights are legally protected.

Many underlying factors must be included when interpreting the contents of these dimensions. Real competition for political power is contingent on the existence of an organised opposition to the current government. The opposition must be free to communicate independent opinions to the population, and have a real possibility to potentially take over the reins of power in the country through regular elections. Inclusive participation also entails a right to be heard between elections. In practice, positive effects of freedom of expression are contingent on the existence of a minimum of independent media that are capable of getting information and opinions out to the people. A local civil society with organisational resources in the form of knowledge, funds and effective channels of communication is a precondition if freedom of assembly is to have positive effects. The rule of law is dependent on corruption being under control. That government agencies have

sufficient capacity is also a precondition for upholding the rule of law and safeguarding human rights.

The situation is further complicated by factors such as time and whether decision-makers are interested in promoting democratic reforms. There are examples of countries where democratisation processes have started, but then stopped again, and where the state is governed by leaders who appear to alternate between being progressive and reactionary. There are also countries where the authorities consist of groups and individuals with widely differing interests and capacity to implement democratic reforms. Comparisons of the systems of government in different countries must take into consideration the differences in countries' history, socio-economic development and political culture.

Given this complex picture, assessments of the state of democracy must build on an overall assessment of each individual case. Many different sources are available for use in the assessment of the state of democracy in different countries, including independent NGOs and actors such as

Box 3.2 The rocky road to democracy

Malawi's experience shows that, in African countries, the development of "rule by the people" does not follow an optimistic, linear path to full democracy. It goes forwards, digresses, goes in circles and encounters setbacks, before going forwards again.

Aid donors flocked to Malawi after the more than 90-year-old dictator Hastings "Kamuzu" Banda had to relinquish his iron grip on the country's political life and economy and allow multi-party elections in 1994. Full freedom of expression and association were introduced, and the new elected government did a great deal to develop institutions based on the rule of law. Democracy blossomed. After a while, however, many of the new leaders started helping themselves from the "cookie jar". A new elite emerged that found it difficult to relinquish the reins of power when their period in office came to an end and new elections were to be held in 2004. Pressure from media, the churches and NGOs was intense. The economy had stagnated, and the donors were pessimistic about the country's future. Many of them scaled down their support or withdrew completely.

Despite this, the elections held in 2004 proved to be free and fair. The new president, Bingu wa Mutharika, broke with the old power elite and secured popular support by focusing on economic growth and food security. He won a landslide victory in the 2009 elections. By then, international aid to Malawi had increased significantly. But in his second term in office, the president and government were most concerned with securing their political positions and economic gains for the future, and their rule became increasingly authoritarian. Things came to a head in 2011, when 20 people were killed following

demonstrations and riots. Donors withheld much of their aid. The country plunged into a political and economic crisis, which lasted until the president's sudden death at April 2012.

The new president, Joyce Banda, repealed laws that threatened freedom of expression and strengthened the power of the police. She replaced the leadership of the police and declared war on corruption in the country. At the same time, she introduced extensive and necessary economic reforms. The international community gave her strong support, and budget support and other major aid-funded programmes were brought back on track.

Since Norway started giving aid to Malawi in the late 1990s, the promotion of democracy and human rights has been a key element in the cooperation. The embassy entered into a long-term collaboration with the United Nations Development Programme (UNDP) that aimed to support the consolidation of democracy in the country. This programme has continued its efforts under changing governments, including periods when democracy has been under pressure. Evaluations show that these efforts have produced results over time, and that, in particular, they have helped ordinary people to become unafraid to demand their rights from the authorities.

At the same time, Norway has supported civil society and focused in particular on supporting the struggle for women's rights and on protecting defenders of human rights during periods when they have been under pressure. Norway has also helped to safeguard people's economic and social rights through cooperation on the development of the country's health services, support for increased production and income for poor Malawian farmers and budget support.

the Brookings Institution, Freedom House, The Economist and others. State of democracy assessments carried out by multilateral organisations such as the UN Human Rights Council, the UN's human rights treaty bodies, the World Bank, regional development banks, OECD, IDEA (International Institute for Democracy and Electoral Assistance), etc. are useful in this context. There are also independent academic presentations of the state of democracy in each country. Several regional institutes, including the Afrobarometer

and Arab Barometer, also conduct opinion polls that provide a basis for country-by-country comparative studies of the people's perception of economic and political development. All these sources must be used over time by Norway in its overall assessment of the state and development of democracy in individual countries.

Box 3.3 Mo Ibrahim – champion of good leadership and governance in Africa

In 2006, Sudanese-born British entrepreneur Mo Ibrahim established a foundation that works to improve leadership and governance on the African continent. The foundation has developed its own index, *the Ibrahim Index of African Governance*, to measure the quality of governance in African countries. The variables considered by the foundation include corruption, human rights, the rule of law, human development and economic opportunities. The index is published in an annual report in which 52 African countries are ranked and trends for various indicators are presented.

According to the 2012 report, countries with small populations have the highest score. The four highest scoring countries are Mauritius, Cape Verde, Botswana and the Seychelles. At the bottom of the scale we find Somalia, the Democratic Republic of the Congo, Chad and Eritrea.

During the six years in which the index has been produced, four countries stand out due to the great change in their overall index. Three of these countries have experienced a positive development, namely Liberia (no 34), Angola (no 40) and Sierra Leone (no 30), while Madagascar (no 35) has seen a marked negative development.

The countries with which Norway has the most extensive development cooperation have all experienced positive, if smaller, changes in their overall index during the six-year period. Ghana is top among them, in seventh place. Tanzania has climbed steadily and was ranked no 10 in 2012. Malawi is in seventeenth place, Mozambique is number 21, and Ethiopia was ranked as number 33.

The Mo Ibrahim Foundation also presents a prize for excellence in African leadership to former African heads of state or government who have left office in the last three years. The prize money includes an amount earmarked to enable the laureate to share his or her experience and expertise and continue to play a public role. The Ibrahim Prize has been awarded three times since 2007. The winners were former presidents Joaquim Chissano of Mozambique, Festus Mogae of Botswana and Pedro Pires of Cape Verde. No prize was awarded in 2009, 2010 and 2012. Mo Ibrahim has emphasised that the prize will not be awarded unless there are candidates who meet all the criteria for excellence in leadership. It should be difficult to win and serve as an inspiration to African leaders.

Norway's support for democratic development

Democracy cannot be introduced from the outside, but foreign actors can lend support to democratic processes. Democracy is about changing a society's political culture, and it is crucial that local actors are the driving forces pushing for fundamental democratic reforms at all times. Norwegian support for democracy must therefore take the form of political and material support for local actors. The Foreign Service's most important task will be to develop a strong knowledge base about local conditions, primarily via the foreign service missions. On this basis, the Foreign Service will use the means available to it to support democratic development and counteract authoritarian forces.

The Government has many policy instruments at its disposal to support democratic development and democracy movements in different countries. Some of these instruments are purely political,

while others include using aid funds. All policy instruments must be adapted to the local context.

1. *Political statements*

Signals given in the political dialogue with other countries, through the mass media and in relevant multilateral bodies can influence both governments and non-governmental political actors. For example, statements made in the UN and other multilateral forums can have an important supportive effect for local actors working for democracy and human rights. Norway has clear expectations of its partner countries in terms of their democratic values and ability to implement human rights. Political statements can be important in relation to countries of all types. In relation to more authoritarian regimes, political statements will be one of the main means of promoting democracy, given that the possibilities of using other instruments are limited.



Figure 3.3 I've voted! An ink-stained finger is a symbol of the exercise of democratic rights in many developing countries.

Photo: UN Photo/Staton Winter.

2. *Support for local civil society*

A free and critical civil society is a fundamental good in all societies and is crucial if democracy is to take root. Local human rights defenders and democratic forces need political as well as material support. The political organisation of interest groups is an important precondition for democratic development. The conditions for such organisation vary greatly. Differences in legislation and practice, access to resources in civil society and a political culture for participation in public debate are decisive factors. It will vary from country to country which groups can and should be supported. Women's rights organisations, trade unions, employers' associations, foundations and youth organisations can differ in what kind of support they need, as well as in their ability and proclivity to move society in a democratic direction. Norwegian support for civil society shall be aimed in particular at agents of change that work to promote a more democratic development.

Culture is also important to the development of civil society. A strong cultural sector can be a driving force for a more open and dem-

ocratic society. The white paper on the Government's international cultural efforts (Report No 19 (2012–2013) to the Storting)¹ discusses this in more detail.

3. *Support for independent media*

Independent radio channels, newspapers and TV stations are important to ensure inclusive political participation. Civil society must have channels that actors can use to get their views across. The emergence of independent media requires the existence of a critical mass of journalists with a certain minimum of knowledge and training. It is also necessary that independent media have capacity in the form of organisation and resources. Norway will contribute to developing media by supporting international as well as local actors that provide training and education for journalists and strengthen independent media by supporting capacity-building.

4. *Support for strengthening of the principles of rule of law*

Democracies are dependent on there being a minimum level of trust between the authorities and citizens. This trust depends on public institutions clearly recognising citizens' legitimate needs and concerns. It is even more important, however, that these institutions are governed on the basis of principles of fairness and equality before the law, respect for human rights and zero tolerance of corruption. In more reform-oriented states, the development of the rule of law may primarily be a question of capacity. In such countries, it can be an option to support the strengthening of government institutions such as human rights commissions, parliaments, supreme audit institutions, supervisory bodies and independent courts of law. In countries with more authoritarian regimes, targeted support measures can be initiated in certain cases, provided that such measures are deemed to improve the likelihood of democratic development.

3.2 **Civil society and independent media – defenders of democracy**

A diverse and dynamic civil society is an important supplement to elected structures and a prerequisite for democratic development. Civil society actors can play the role of interest groups,

¹ Meld. St. 19 (2012–2013) *Regjeringens internasjonale kulturinnsats*

Box 3.4 What is civil society?

There is no clear definition of the term “civil society”, but it is generally understood to cover actors that are not public or commercial (*non-governmental, non-profit*). This includes voluntary organisations, support groups, religious communities, social movements, the labour movement etc. Academia can sometimes be included, but this sector is often subject to government control. The media will normally be commercial, but this is not always the case.

watchdogs and agents of change. Change can be pushed through if they succeed in mobilising strongly enough against those in power. Technological developments with increasing access to mobile phones, the internet and social media help to increase openness and the flow of information, thus providing more opportunities to influence and mobilise.

In countries with a democratic system of governance, the right to information, to free formation of opinions and to public communication enjoy strong legal protection and are safeguarded by many different institutions. Civil society and independent media are two key guarantors that the reality will live up to these ideals. Not only are civil society and the media important in shaping public opinion, and to criticism, debate and innovation, they also perform important control functions in political life, and act as a critical corrective to the abuse of power and lack of openness in all areas of society. Popular legitimacy and support are necessary if civil society actors are to be able to hold decision-makers accountable and influence them. It is important to use a broad definition of civil society in order to identify movements and actors with substantial local or national support.

However, civil society and the media’s political room for manoeuvre is often limited by the interests of the state and those in power. There is great tension in many countries between NGOs and independent media, on the one hand, and the political elite and their communication apparatus, including state-controlled media, on the other. This limits political participation and the efforts to promote a fair distribution of public goods.

In authoritarian states, the possibility of supporting agents of change in civil society will in some cases be limited by arguments that such sup-

Box 3.5 Farmers’ organisations

Farmers’ organisations can play an important role as spokespersons for farmers in relation to the authorities. In many countries, however, and especially in Africa, most farmers’ organisations are more involved in spreading knowledge about farming issues, and less in acting as interest groups presenting farmers’ demands to the authorities. More and more of these organisations are beginning to participate actively in the local political debate, however. One example is the National Smallholder Farmers’ Association of Malawi (NASFAM). NASFAM has engaged in systematic dialogue with the authorities and has succeeded in having an export ban on soybeans lifted and in changing import taxes on agricultural equipment.

The establishment of farmer-owned organisations that cooperate on buying input goods and/or selling their products will help to strengthen the farmers’ position in the market, and thereby also their income potential. Individual smallholders will be in a weak market position, and cooperatives can help to secure sales of agricultural produce for the benefit of both farmers and consumers. Several farmers’ organisations are in the process of adopting this role, and will gain increased political importance with time. Their work is crucial in the efforts to ensure that the voices of smallholders are heard.

port represents a breach of the principle of non-interference in the internal affairs of the state in question. In some countries, the authorities have prohibited NGOs from accepting support from abroad, and organisations that receive such support may risk accusations of espionage or treason.

The Government wishes to strengthen elements in civil society in the global South that have a real chance of acting as driving forces and agents of change, thereby contributing to the development of more open and democratic societies and fighting poverty. The policy instruments range from political influence on national framework conditions to individual measures and training at the individual level.

The rationale for this support is partly that an active civil society has inherent value, and therefore requires no further justification, and partly that



Figure 3.4 Pakistani Malala Yousafzai is a powerful example of young people's commitment and the fight for young people's rights. Many world leaders have been inspired by her courage.

Photo: UNESCO/Emilien Urbano.

such actors make significant contributions to fighting poverty and promoting fair distribution. It is nonetheless important that voluntary organisations' role in providing services does not have a negative effect on the state's ability and position as a service provider, but rather that it acts as a supplement.

The national authorities' responsibility for promoting good working conditions for voluntary actors is highlighted in the partnership declaration signed by nearly all the countries in the world in Busan in December 2011.

Norway's strategy for using civil society and media development in its efforts to combat poverty and oppression is based on the conditions in individual countries. Actors that work to promote development, democratisation and the redistribution of power, and that have a real chance of contributing to change, must be strengthened.

Through partnerships with local organisations, Norwegian actors are helping to increase competence and build alliances between different groups and interests that can lead to broad popular mobilisation against poverty and oppression. In some cases, this work takes place in cooperation with the national and local authorities, while,

in other cases, the authorities are part of the problem.

Decision-makers usually give most consideration to what they perceive as strong pressure groups and interest groups. The political and civil rights of young people are often neglected. Under the UN Convention on the Rights of the Child, they have a right to freedom of expression, freedom of association and to be heard in all matters that affect them. In practice, however, this group often has little political and economic power. At the same time, political decisions have a great impact on them. Active participation by youth is a sensible economic and political investment in the future. Engagement in civil society is often young people's most important gateway into, and arena for, participation in democratic processes.

Democratic youth organisations are important in order to develop and maintain a thriving democracy. They represent a channel through which young people can formulate their own political demands and work for the realization of their human rights. Through mobilisation, knowledge-building, leadership training and organisational development, youth organisations help to ensure

Box 3.6 New topics in the training of journalists

Norwegian support for training in economic journalism in Africa under the auspices of Thomson Reuters is an example of how new topics such as tax evasion, tax havens and economic crime are being placed on the media's agenda. This highlights the necessity of being able to work internationally on cases that know no borders. Research shows that the media are a crucial factor if other sectors of society are to be able to deliver better goods and services. A clear correlation has been found between strengthening a country's media sector and political stability, anti-corruption work and development impact.

Box 3.7 Religious institutions as a force for change

In December 2007, a group of religious leaders from various religious communities were taken on a trip to the mining areas in northern Tanzania. The shock of seeing the poverty around the gold mines and the environmental problems caused by the mining operations made a lasting impression. The Anglican archbishop criticised the mining companies harshly in the Christmas service broadcast on TV that year. The Muslim and Christian councils later published a joint report describing how little tax these companies paid. This report was a direct contribution to a legislative process that subsequently resulted in an amendment increasing taxes for mining companies. Specialists from small organisations who had worked on environmental and human rights issues relating to the mining industry for years could now speak more openly, and the newspapers began to publish more critical stories. New possibilities had opened up. The work of the three councils is now organised through an interfaith committee, the Interfaith Standing Committee on Economic Justice and the Integrity of Creation.

that the voices of young people are heard and that the authorities are held accountable. As a development actor, it is important to understand how such organisations can best be supported.

Education is an important means of enabling young people from different social backgrounds to participate on equal terms in the labour market as well as in democratic processes. The school system is intended to provide pupils with fundamental skills that are in demand in the labour market, democratic values and knowledge about democratic participation. Without such knowledge, it will be difficult for young people from poor or discriminated segments of the population to exercise their rights or participate in the labour market.

Relations between the state and civil society and the possibilities of developing democratic relations differ from country to country. Important factors in this context include political and cultural norms and rules, the country's history, the system of government and the state's own experience of democratic governance.

International media support has changed significantly in a short space of time. Just a few years ago, ad hoc training in journalism was the predominant activity. Today, it accounts for less than half of the overall activity, while support for programme development, the development of media legislation, sector institutions, local radio stations, social media, security and, not least, internet freedom, has grown correspondingly. A free and independent press must be run in a sound and sustainable manner. Organisation, management, distribu-

tion and marketing are all important in this context.

The social media have already demonstrated their potential to facilitate broad political participation. One of the great advantages of social media is that they are non-discriminatory in the sense that groups that are not normally heard in public debate can be given a voice. One such group is women, who in some societies are subject to restrictions on public participation.

The Arab Spring clearly demonstrated how social media can have an important function by uniting people with similar opinions and by serving as an information channel for opposition movements. Social media and new technology are to a large extent also the domain of the young, a domain where children and young people whose voices are not heard via the ballot box can freely express their opinions.

The media reality is changing rapidly all over the world. New technological solutions, products and business models can be out of date almost before they are launched. As a small actor in this context,

Norway emphasises close collaboration with other donors and important specialist organisations on the development of freedom of expression and media. At the same time, many people still lack internet access. In rural areas in particular, the radio remains many people's main source of information.

3.3 Corruption increases inequality

Corruption is a serious threat to the rule of law, and thereby also to democracy. Corruption at all levels promotes inequality and inequitable distribution. Corruption is defined as acts, or attempted acts, whereby someone requests or receives, accepts or offers a person an improper advantage, whether in the private or public sector. Corruption also takes place between private actors both in the private sector and in civil society.

Corruption prevents the efficient use of national resources, and hampers economic growth, in addition to undermining formal processes and the political system. The negative consequences of corruption are great, whether we are talking about small-scale bribes or large-scale illicit financial flows. Small-scale corruption in the form of bribes has a direct effect on individuals' lives. Such corruption can prevent people from gaining access to health and education services and deny them their legal rights, and thereby reduce the opportunities poor people have to lay the foundations for a better life.

The consequences of large-scale corruption such as illicit financial flows have a destructive effect on society as a whole, cf. Chapter 8. Large-scale corruption deprives the state of substantial revenues, thus undermining the possibility of providing universal high-quality health and care services and education and of investing in projects like building roads and ensuring access to water and energy.

A high level of corruption weakens trust in democratic institutions and processes as well as in the institutions tasked with safeguarding people's rights. In a society where corruption is rife, personal financial interests may lie behind seemingly democratic decisions. People's opportunities to influence political decisions and the country's authorities are also affected. When institutions charged with exercising scrutiny and control, such as supreme audit institutions, parliaments, ombudsmen and the justice and police systems are corrupt, the whole basis for democratic development is undermined. Consequently, the basis

Box 3.8 Monitoring public expenditure in Tanzania

Public Expenditure Tracking Systems (PETS) is a method used to monitor how public funds are used locally by checking that money that is allocated is used as intended. The goal is to enable people in local communities to become active citizens who are in a better position to hold their leaders accountable, demand their rights and in this way improve public services and the use of public funds.

PETS takes the village assembly meeting, part of Tanzania's administrative structure, as its point of departure. The meeting appoints a committee that is responsible for reviewing the financing of the public services a village decides to develop, for example building a health centre, school, water supply or similar. Norwegian Church Aid funds training for the PETS committees via local partners.

This has resulted in more active local communities with better information and a greater ability to influence the villages' plans and their implementation, which in turn improves efficiency and ensures better value for money. In some cases, corruption has also been uncovered among local leaders and interests. Local committees of religious leaders are therefore being established. They support the village committees and can intervene if powerful local interests use dishonest methods to maintain their privileges.

for reducing poverty and improving distribution is also weakened.

Norway endeavours to prevent, uncover and prosecute corruption. Anti-corruption efforts shall be part of the work to improve governance locally, nationally and globally. Norway is a driving force in the efforts to strengthen the work of multi-lateral organisations in this field. The UNDP is engaged in anti-corruption work in many countries and plays a unique role in this area.

Funds that the Storting allocates for development purposes must be used in accordance with the Storting's intentions, the Norwegian Regulations on Financial Management in Central Government and agreements that are entered into. The Government practices zero tolerance for financial irregularities, including corruption.

Financial irregularities must be prevented, uncovered, reported and dealt with.

The Ministry of Foreign Affairs established the Foreign Service Control Unit in November 2007 as an independent control body for the administration of all funds under the ministry's budget. The unit is a point of contact and adviser in cases where financial irregularities are suspected. The unit is also responsible for ensuring that the Foreign Service has expedient and satisfactory instructions, systems and procedures for its financial management and that financial management in the Foreign Service is carried out in accordance with the applicable regulations. The unit's quarterly reports are published on the Government's website at government.no. At the end of December 2012, the Foreign Service Control Unit had received 415 notifications of financial irregularities, of which 254 had been closed and 161 were still being processed. These figures also include cases that fall under the areas of responsibility of Norad, Fredskorpset and the Norwegian Investment Fund for Developing Countries (Norfund).

The United Nations Convention against Corruption

By the end of 2012, the United Nations Convention against Corruption had been ratified by 164 countries. The Convention sets out a framework for transparency and accountability requirements for states that have ratified the Convention. It is an important tool for monitoring how countries meet their commitments and for assessing where professional and economic assistance is needed. Norway ratified the Convention in 2006, and follows the international process relating to it. Participation by civil society in following up the Convention's implementation in individual countries is important. The main elements of the Convention are prevention, criminalisation and law enforcement, international cooperation, legal mechanisms for asset recovery, and technical assistance and information exchange.

Public access to information and transparency in public administration are necessary in order to hold the authorities accountable and subject political decisions and the use of public funds to scrutiny.

This is fully addressed by the UN convention. Through budget support, steps are taken to

strengthen systems for public financial management and public procurements, which has improved transparency and public access to information. Some countries publish their national budgets online, but this information is often hard to access and difficult to understand. It can be difficult to compare expenditure figures with budgets, and it can be demanding for parties such as civil society, parliaments, the media and academia to interpret the information. The establishment of electronic public financial management systems puts the individual countries' supreme audit institutions in a better position to carry out checks and audits.

The Government will:

- place greater emphasis on the state, and the development, of human rights and democracy in recipient countries in its allocation of aid
- give priority to government-to-government cooperation with countries that show a positive trend in terms of democracy and human rights over time
- place greater emphasis on assessing the risk that the effect of aid could be to maintain or intensify authoritarian trends
- place greater emphasis on applying a rights-based approach to development assistance, by, inter alia, preparing guidelines for use by embassies
- support democratic forces and human rights defenders in civil society, academia and the media. Particular priority will be given to promoting women's political participation
- support civil society organisations and parliaments in developing countries in their efforts to monitor public expenditure
- review on a regular basis the state, and the development, of democracy in particularly important partner countries
- increase its support for democratic organisations and social movements for, and made up of, children and young people
- further develop efforts at both national and international level to combat financial irregularities in line with our zero-tolerance principle
- invite the Norwegian Children and Youth Council to take part in a strategic cooperation on further developing the Foreign Service's expertise regarding youth and democratic participation.

4 Sustainable growth that creates jobs

Good jobs are the best way of lifting people out of poverty and contributing to the fair distribution of public goods. Jobs must give families sufficient income to live on, not be hazardous to health, and should protect and respect workers' rights – what is known as decent work.

Certain conditions need to be met in order to create new, decent jobs and ensure economic growth. Investments and reliable access to energy are often required for modern jobs. Investments entail risk – a risk that is often higher if a country is experiencing war and conflict or has an undemocratic form of government.

Growth in the world economy is accompanied by corresponding growth in the consumption of natural resources. One-sided focus on economic growth without taking nature's limits into consideration may be profitable in the short term, but

could weaken the conditions for long-term growth and development. Growth that is not environmentally sustainable will also be most detrimental to the poorest people, since the livelihoods of the world's poor are often based on natural resources. Good growth therefore depends on economic, social and environmental sustainability.

4.1 Jobs in focus

Regular income is a precondition for meeting a family's fundamental needs. In many societies, it is also a precondition for access to education and health services. However, family income alone is not sufficient to ensure this. The power structure within families, particularly in relation to gender, greatly influences how the income is spent.



Figure 4.1 It was a big event when electricity finally came to the village!

Photo: Guy Mansfield/Panos/Felix features.

Box 4.1 Work and capital in India

The most expensive house in the world is found in Mumbai, but India's capital city does not lag far behind in terms of wealth. In October 2012, the Times of India reported that a quarter-acre plot had sold for more than NOK 100 million in Chanakyapuri, a sought-after neighbourhood in New Delhi. This is equivalent to more than NOK 100,000 per square metre. Such land prices are bound to have an effect on the housing market. The rent for a 150-square-metre flat in this part of the city is about NOK 40,000 a month. Many residents in this neighbourhood employ security guards, who are paid NOK 1,200 a month to work 12-hour shifts seven days a week. This means that security guards would have to work for nearly three years to pay a month's rent in the area where they work.

Access to food, clothes and adequate housing also depends on many other factors, including security, infrastructure, the possibility of exerting influence and democracy.

The private sector is the driving force behind new enterprises, jobs, production and technological development. The sector accounts for 90% of the world's jobs. The public sector must contribute to macroeconomic stability by means of regulation and a taxation system that ensures that value creation benefits everybody. The public sector also creates jobs, particularly in the health and education sectors, but also in areas such as infrastructure, the legal system and public administration.

Many developing countries have extensive regulation and bureaucratic procedures that often hinder rather than facilitate trade and business start-ups. It is difficult to give general advice about what donors and national authorities should do, as an understanding of the context is paramount. The order in which measures are introduced often decides how they work. Even though it is sensible for a country to raise its tax level, it may be important to improve the tax administration and increase the tax base first. Control and regulation are necessary in many areas of society, but if public agencies and systems are permeated with corruption, they could end up supporting the very injustices they are tasked with counteracting. Whether allocating more resources will exacer-

bate or solve the problem will in such cases depend on the ability and will to eradicate corruption.

Agriculture is the most important industry in many poor countries, and poverty reduction will be closely linked to increasing productivity in this sector. That will not be enough, however. In the poorest countries, more than two-thirds of the population work in primary industries, and value creation per capita is very low. Increased productivity will result in less demand for labour in the agricultural sector, and many will have to find jobs in other industries. It is important to create alternative jobs before large groups of people are pushed out of agriculture.

No country has succeeded in strongly reducing poverty without industrialisation. If poor countries are to succeed in creating economic and social development, they have to establish industries that produce input goods for the agricultural sector, that process products from the primary industries and that manufacture products for export and domestic consumption at a profit.

The climate negotiations, and not least Rio+20, have put green economy and green growth on the agenda. Green growth is growth that ensures that environmental sustainability is also addressed. Technology transfer and new "green" investments create opportunities for many new and modern jobs. A global fund, the Green Climate Fund, has been established to fund climate measures in developing countries. It is important to pursue strategies aimed at designing new jobs in a way which can make them eligible for support from the Green Climate Fund later.



Figure 4.2 Small and medium-sized enterprises create many jobs. Entrepreneurs, like this woman from the Ivory Coast, play an important role in the work to promote fair distribution and eradicate poverty.

Photo: ILO.

Box 4.2 The World Bank Development Report 2013: Jobs

The topic of the World Bank's 2013 World Development Report is jobs. In the report, the World Bank describes jobs that are good for development.

Jobs that are good for development generate income in the form of money or other forms of payment without violating human rights. The work and income must be decent, and it can be in the formal or informal sector. Work is the key to development, economic as well as social. In addition to the value work represents for people's personal development and self-esteem, it is also crucial in relation to poverty reduction, increasing productivity and social cohesion. Work also leads to development, as a result of individuals developing their skills and of women's influence increasing, and through its stabilising effect on societies emerging from conflict.

The report emphasises that obstacles to creating good jobs do not necessarily fall under the scope of labour market policy. The report has four main messages to the authorities:

A vast majority of jobs are created by the private sector. The role of government is to support private sector job creation by ensuring macro-economic stability, an enabling business environment, human capital accumulation and the rule of law. The public sector can contribute by providing sufficient educational and health services.

Labour policies. The role of the authorities is to ensure an appropriate level of labour market regulation – excessive or inadequate regulation will have a negative effect.

What works and what constitutes good jobs will vary from country to country. Individual countries must implement policies based on their own context. The authorities must identify major obstacles to job creation.

Priorities. It is necessary to identify the types of jobs with the greatest development payoffs given a country's context, and to address the market imperfections that result in too few of those jobs being created. The main obstacles to job creation must be addressed, also those that lie outside of the labour market.

4.2 Economic growth in Africa

It is well known that many Asian countries have had high economic growth over a long period, and that countries in Latin America have also experienced strong growth since the turn of the millennium. In recent years, many African countries have also attracted attention for their high and prolonged economic growth.

Fewer conflicts, the absence of serious economic setbacks, greater political stability, better and more democratic forms of government and better economic policies have facilitated progress in Africa. Several research reports and evaluations show that aid has also made an important contribution to progress.

Africa's challenges remain formidable, however. The growth is measured in relation to a very low baseline level, and, compared with other continents, Africa's economy is still too one-sided, its educational level too low, its governance weak, and there are many fragile states. A lack of stable access to energy and poor infrastructure are two of the obstacles to economic growth and job creation.

The high growth in Africa has to a large extent been driven by an increase in revenues from the export of primary commodities. These increased revenues have been spent on consumption, and not to a sufficient extent on long-term investments. So far, Africa has been shielded from the financial crisis because large sectors of its economy are not global. If the global financial crisis persists and commodity prices drop, however, this will have significant consequences.

The population of Africa is growing twice as fast as that of the rest of the world, and it will double in 28 years. This will result in increased urbanisation and local and regional migration, among other things.

4.3 Investments

Global economic forecasts show that the greatest growth in the time ahead will come in Africa, but that growth will also continue in Asia and Latin America. Europe and the other OECD countries will continue to experience low

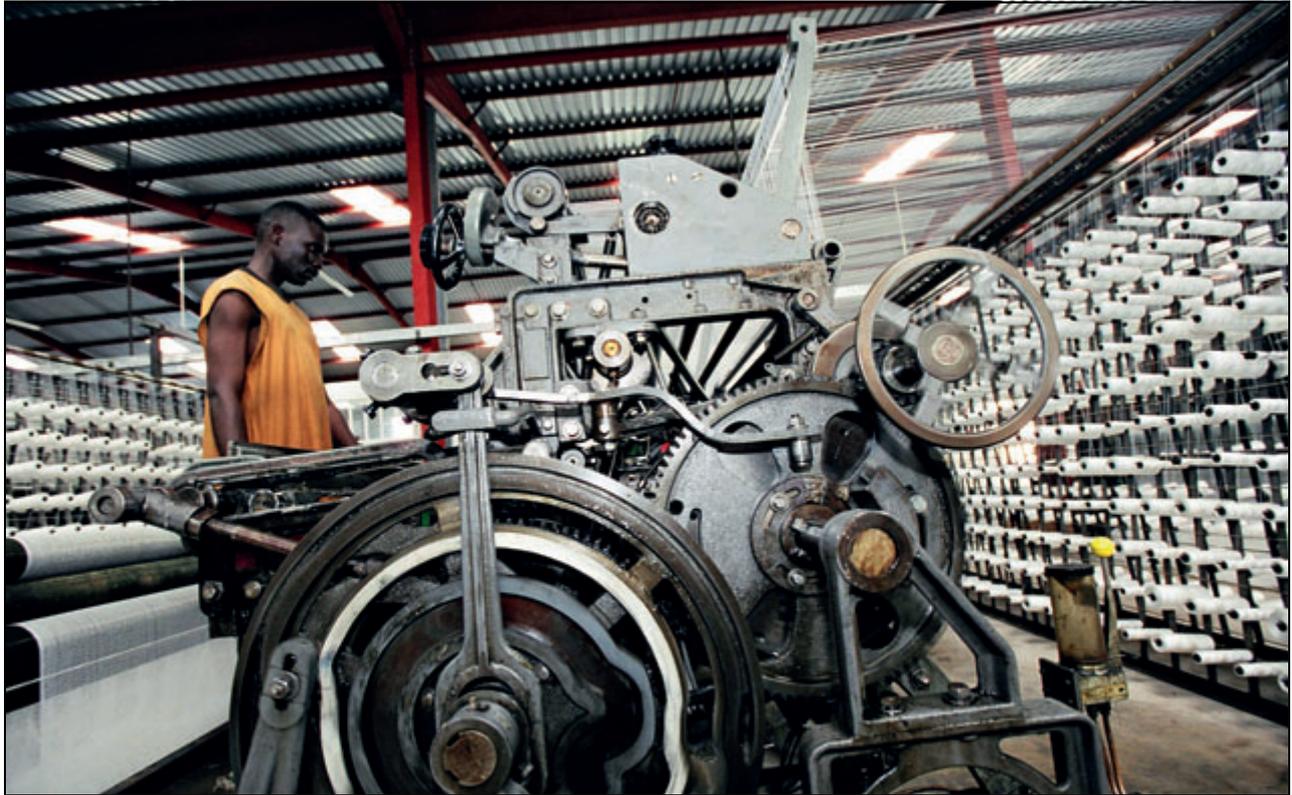


Figure 4.3 Although Africa is still lagging behind Asia and Latin America, more industrial jobs are being created in Africa as well. This enterprise in Tanzania manufactures fishing nets.

Photo: ILO.

growth rates.¹ The most developed of the developing countries, which are known as the emerging economies, are seeing a rapid increase in the number of new enterprises financed by a high level of domestic savings and foreign investment.

The propensity to invest is lower in poorer countries. Due to poor regulatory frameworks, weak infrastructure, low skill levels and quality of production, small markets and weak export capacity, many private investors feel that it is too risky to invest in those countries.

Norway has for a long time had public support schemes aimed at helping to trigger commercial investments in developing countries. Combined with the increased growth experienced by many such countries, this support has contributed to more Norwegian companies becoming involved in these countries over the past few years.

Norfund is the Government's most important instrument for the promotion of investment in developing countries. Norfund's mandate is to contribute equity and other venture capital, and to fur-

nish loans and guarantees for the development of sustainable businesses in developing countries. The objective is to establish viable, profitable enterprises that would otherwise struggle to obtain financing due to high risk. Norfund shall contribute capital in the period after establishment when the risk is greatest, and subsequently sell its holdings to the other investors or in the market.

The purpose of Norfund is to promote private sector development in developing countries, not to contribute to the internationalisation of Norwegian business and industry. The fund shall seek the most suitable partners globally in its priority sectors. At the same time, Norfund shall work actively to mobilise Norwegian companies as partners in its projects. By the end of 2011, just over half the fund's capital had been invested in cooperation with Norwegian partners.

Norfund mainly focuses on equity investments, which account for 80% of its invested capital. By taking the high risk associated with equity in investment projects, Norfund has helped to enable the projects to achieve considerable loan financing. For each Norwegian krone Norfund has invested in renewable energy, an average of

¹ United Nations, World Economic Situation and Prospects 2013.

Box 4.3 Trade – an important factor for economic growth

Increased participation in international trade is an important factor in the efforts to generate economic growth, development and increased prosperity in the poorest countries. Trade forms an important part of many countries' development strategies. Many developing countries have strongly increased their foreign trade in recent years. Many of the poorest countries, including African countries, have taken part in this growth. Nevertheless, the least developed countries still account for only a marginal proportion of global trade.

Aid for trade is one of the Government's priority areas. Trade regimes define the most important premises for international competition for investments, production and employment. It has long been a key demand among developing countries that terms of trade be improved in order to enable them to participate more actively in international commerce. Market access alone is not enough. It has been established in many contexts that the poorest countries will be unable to benefit from an open, rule-based international trade regime without substantial and effective development cooperation. Our own experience in Norway shows that duty-free market access for the least developed countries does not necessarily increase imports significantly, among other things because of insufficient production capacity and competence.

10 Norwegian kroner has been invested by commercial sources in the form of equity and loans.

At the beginning of 2013, Norfund had invested a total of NOK 9.1 billion, directly or indirectly, in over 300 companies that employ more than 165,000 people in all. The fund's investments in renewable energy result in the supply of electricity corresponding to the consumption of 11.1 million people in developing countries.

A capital infusion of NOK 1.18 billion has been allocated to the fund for 2013. At least half of this capital infusion is earmarked for renewable energy, and it is also the Government's goal that Norfund increase its direct investments in the agricultural sector in the years ahead.

It is important to emphasise that public support can only provide limited relief. The investments must be commercially motivated, and the companies must carry most of the risk themselves.

There is a clear expectation that the Norwegian companies will exercise corporate social responsibility, also when investing or establishing production in, and trading with, poor countries where standards are lower and laws and regulations less stringently enforced than in Norway. Among other things, enterprises must apply good health, safety and environmental (HSE) standards and respect workers' rights. The expectations of Norwegian companies are set out in the 2008 Strategy for Workers' Rights within the Decent Work Agenda, in Report No 10 (2008-2009) to the Storting *Corporate social responsibility in a global economy* and in Report No 13 (2010-2011) to the Storting *Active ownership – Norwegian State ownership in a global economy*. The Government encourages Norwegian enterprises to make active efforts to recruit locally and to use local enterprises as contractors and suppliers in developing countries. Norwegian enterprises should also require their suppliers and business partners to comply with social and environmental standards in order to contribute to building capacity and competence throughout the delivery chain.

Norway also supports the implementation of the UN Guiding Principles for Business and Human Rights. These principles are threefold: 1) the state's duty to protect human rights, 2) the corporate responsibility to protect human rights, and 3) access to legal remedies if these rights are violated.

In addition to Norfund, the Government provides aid for the promotion of investment, among other things in the form of feasibility studies for enterprises that are considering establishing operations in developing countries, for the training of employees in new enterprises and for improved working and environmental conditions. Funds are also channelled through multilateral institutions, primarily the World Bank, the regional development banks and the International Finance Corporation (IFC).

4.4 Energy for all

About 20% of the world's population, 1.3 billion people, do not have access to electricity. Eighty per cent of these people live in sub-Saharan Africa and in India. Nearly 40% of the world's population

have to cook their food on poor cookstoves or on open fires. This is polluting and time-consuming and it contributes to deforestation. In addition, exposure to smoke causes major health problems. The WHO estimates that 1.5 million women and children die every year as a result of respiratory diseases caused by this practice.

The IFC has estimated that the poorest people spend the equivalent of NOK 220 billion a year on energy services, which are often ineffective and harmful to the environment. In other words, the market for energy services is big, even among the poorest people.

Universal access to modern energy services remains elusive. It is still an important goal, however, as access to energy is necessary in order to stimulate the transition to a modern economy in developing countries. Good long-term management of the natural resources used in energy production is necessary in order to ensure that the energy benefits the whole population.

Stable access to better and more modern energy services makes economic and social development possible, and it is a precondition for more fair distribution. Entrepreneurs can start up enterprises and create jobs, pupils can read better and

Box 4.4 Electricity can save lives

Electricity is necessary for storing medicines and running an efficient health service. When Pemba Island was permanently connected to the mainland power grid in Tanzania, giving it a stable electricity supply, the first studies showed an improvement in hospital care. A senior doctor estimated that 90 lives were saved every month as a result of the improved electricity supply.

for more hours of the day, and the population can enjoy better health services. Medicines and vaccines can be stored safely in refrigerators. Access to electricity is a precondition for participation in the information society and in global development using the possibilities represented by television, radio, the internet, social media and mobile phones. Such information and communication tools are also becoming increasingly common among poor segments of the population. Making the agricultural sector more efficient depends on



Figure 4.4 For many people, connection to the national power grid remains a distant dream. In the meantime, electricity from solar cell panels can be a good solution, as it is for this family in Mongolia.

Photo: UN Photo/Eskinder Debebe.



Figure 4.5 The power supply can be a tangled knot.

Photo: ILO.

irrigation and on small enterprises that process agricultural products, and both these factors depend, in turn, on access to energy.

The world's huge consumption of fossil energy causes climate change. We therefore have to reach a global agreement that secures the right of developing countries to economic growth and prosperity, while at the same time ensuring that the world's overall emissions are reduced in order to limit anthropogenic climate change. According to the UN Intergovernmental Panel on Climate Change, global emissions must peak in 2015 and be reduced by 50-85% compared with 2000-levels by 2050 if the two-degree target is to be achieved. The current trend for greenhouse gas emissions is not consistent with the goal of keeping the average global temperature increase below 2°C compared with pre-industrial levels. Extensive investments are therefore required in energy efficiency, development and the transition to renewable

energy sources, as well as in carbon capture and storage.

It is acknowledged at the same time that the poorest developing countries, in particular, must use the solutions and local resources available to them to secure the energy they need. Fossil fuels have an important role to play even in the two-degree scenario, and poor countries usually have low emissions per capita. In developing countries, much of the basic infrastructure is still being developed. This provides an opportunity to develop systems and use technology that meet economic efficiency requirements, but with a lower consumption and emission profile than in more developed economies. It is therefore a good climate strategy to support the efforts of developing countries to develop an energy sector that is based as much as possible on renewable energy.

Norway's support for investments in expanding the grid and increasing the production of renewable energy is based on a broad social and developmental perspective. We place particular emphasis on the role a stable and secure energy supply plays in relation to economic growth, employment and social development. Norway's efforts to contribute to promoting fair distribution will focus on low-income countries and countries in the lower middle-income category.

The power sector is dominated by commercial actors, and electricity prices must therefore cover the actual production and transmission costs. This often makes electricity too expensive for the poorest segments of the population. For most developing countries, it will take several decades to develop a nationwide grid, and it will require a level of investment that is unrealistic at present. The grid will therefore have to be developed step by step, as growth and purchasing power increases. This means that it will take a long time before remote areas and the poorest segments of the population are able to connect to the national power grid. The International Energy Agency (IEA) has estimated that 40% of people who lack access to electricity can be connected to grid-based solutions, while the remaining 60% will have to rely on local grids or isolated power sources such as solar panels for a long time to come.

In parallel with our support for development of the national power supply, the Government will also support programmes for the development of local renewable energy production and energy supply in areas that will not be connected to a national grid. For the time being, the best way of meeting the power and energy needs of this group

Box 4.5 Sustainable power supply

The pace of industrialisation in Norway picked up speed in connection with the development of hydroelectric power in the early 20th century. This was important both at the national and local level. One of the fundamental principles of Norway's hydroelectric power policy has been to ensure good and stable regulatory frameworks for investors and a good distribution of the revenues generated to benefit society as a whole, and the affected local communities in particular. The preparation of a *Master Plan for Water Resources* ensured that the most economically and environmentally beneficial projects were realised first. Many rural municipalities have therefore enjoyed large and stable revenues in addition to getting a share of the power production at cost price. Local jobs were created and a competitive supplier industry developed.

In order to facilitate the best possible projects from an environmental and social perspective, a licensing system was developed that is characterised by transparency and the inclusion of affected parties. Many developing countries show great interest in the Norwegian experience of developing a sustainable hydroelectric power sector.

of consumers is via small local grids and solar energy, as well as improved cookstoves.

The investment risk in poor countries is often very high. This makes it difficult to achieve coherent energy planning at the national level and to involve public and private actors that can develop a functioning energy market together. The first step could consist of ensuring access to electricity for important public services in the local community, such as schools and health services. In fragile states, aid will often be the most important source of investment. Investments should be based on long-term societal interests, and steps should be taken to facilitate long-term operation in the energy sector.

Many countries in Africa, Asia and Latin America have large deposits of non-renewable natural resources such as oil, gas and/or coal. The challenge is to exploit these resources in a way that benefits the population as a whole. Studies show that there is a correlation between a country's

Box 4.6 Sustainable energy for all

UN Secretary-General Ban Ki-Moon's initiative Sustainable Energy for All (SE4All), which was launched in 2011, has helped to put access to energy and energy consumption on the international agenda. With NOK 12 million, Norway was the biggest contributor to the first phase of SE4All. Phase II was launched in 2012, and Norway plans to support the initiative with a further NOK 10 million a year. The initiative is technology- and energy source-neutral, which in this context means that it includes fossil as well as renewable energy. The goal is threefold:

- i. Universal access to modern energy services
- ii. To double the global rate of improvement in energy efficiency
- iii. To double the share of renewable energy in the global energy mix.

dependence on natural resources and the degree of income disparity. This is discussed in more detail in Chapter 5.

In addition to large non-renewable energy resources, many countries also have great potential in terms of renewable energy, for example hydroelectric, wind and solar power. It is important for the Government that energy resources are managed in a way that takes into consideration the best interests of the population as a whole. Management regimes must address long-term concerns, and we can contribute our knowledge of licensing laws, reversionary rights, environmental impacts and a consistent taxation policy. This results in regulatory frameworks that are stable in the long term, which is important in order to attract commercial investments. Political structures and redistributive mechanisms that have legitimacy and function as intended are necessary if the revenues are to benefit the nation and population as a whole.

Norway will continue to assist in the development of functioning management regimes and to share our experience of hydroelectric power development with developing countries, as we are assisting, for example, Bhutan and Liberia by using experts from the Norwegian Water Resources and Energy Directorate (NVE). At the same time, we will support the development of a



Figure 4.6 Trade union meeting for tea workers in Malawi.

Photo: LO/Terje Kalheim.

broad range of renewable energy based on the potential renewable resources in partner countries.

In some countries, the authorities have chosen to subsidise petroleum to provide people with cheap fuel. Such subsidies result in a high petroleum extraction rate and cause climate problems as a result of increased greenhouse gas emissions. Studies also show that this is not a good distributive policy. The subsidies represent a major drain on the public coffers and primarily benefit people with high incomes. According to the IEA, fossil fuel subsidies amounted to NOK 3,138 billion worldwide in 2011, while renewable energy subsidies amounted to NOK 528 billion.

There is often strong popular opposition to the removal of such subsidies. Fossil fuel subsidies should therefore be phased out gradually through a strategy that highlights alternative uses of the money for the benefit of the general public. The Government will work to promote reform and the phasing-out of inefficient subsidies that are harmful to the environment and climate, and that counteract fair distribution and undermine sustainable development. A Norwegian strategy for inter-

national cooperation to promote reform of fossil fuel subsidies will be prepared in 2013.

In recent years, the Government has launched two major initiatives aimed at improving access to energy and strengthening energy expertise in the development policy context, the Clean Energy for Development Initiative and the International Energy and Climate Initiative/Energy+. These initiatives will be poverty-oriented and will give top priority to countries in sub-Saharan Africa. They are both intended to facilitate increased private and commercial investments in the energy sector in poor countries. Energy must to an increasing extent come from renewable sources if we are to be able to meet the global climate challenges.

A separate budget line for renewable energy has been introduced in the national budget with effect from 2013. NOK 1.4 billion has been allocated for this purpose for 2013. Norwegian aid for energy in developing countries is planned to total approximately NOK 2 billion in 2013.

The main objective of the Clean Energy for Development Initiative is to increase access to clean energy at an affordable price, based on long-term natural resource management and efficient

use of energy. The initiative is based on Norway's expertise in the energy field and the long-term natural resource management Norway has developed. Support for Norfund, which was described in Chapter 4.3, is part of this initiative.

The International Energy and Climate Initiative/Energy+ was established as a two-year pilot project in 2011. It is an international partnership supported by the UN Secretary-General, donor countries, developing countries, private actors, multilateral development banks and institutions, international organisations and civil society. The initiative will be reviewed in 2013 with a view to continuing the work.

4.5 Well-regulated working conditions

It is the responsibility of the authorities in each country to set the framework for and adopt policies for business, industry and employment. They have a particular responsibility for establishing

Box 4.7 Collective bargaining as an instrument in the fight against inequality

Chile has no centralised or sector-based system for dialogue and collective bargaining between the social partners. Bargaining takes place in each enterprise. This contributes to reducing the relevance of trade unions in Chilean society. Only 14% of Chilean employees are organised at present, and only 11 out of 100 are covered by collective bargaining. Employees' weak negotiating position affects their possibilities of influencing their working conditions and pay. The result is that, for the vast majority, wage growth systematically lags behind, which has contributed to consolidating the social inequality that characterises Chilean society.

The *Fundación Sol* foundation has studied the connection between labour market organisation and economic inequality in Chile. On the basis of historical data, the foundation has shown that the more centralised the collective bargaining system, the more equal is the national income distribution. In the same way, inequality in society is expected to decrease as more people join trade unions.

legislation and supervisory bodies to promote decent work. It is important to have strong and responsible workers' and employers' organisations in order to ensure that the rights and interests of employees are safeguarded and to create good regulatory frameworks for business and industry. Well-regulated working conditions require open dialogue between the authorities, employers and workers.

The social partners in developing countries are often characterised by weak organisation, a poor financial situation and undemocratic structures. This can impair their ability to play a clear role in society. In many African countries, there has been extensive government control, either through co-optation of the leadership or by oppression placing limits on unions' political involvement. It is a mixed picture, however, and trade unions have played an active role in society in several countries, including South Africa, Ghana and Zimbabwe.

The role of the trade union movement varies from country to country. In countries with a high degree of urbanisation and a growing number of jobs in the formal sector, the trade union movement will often fight for freedom of assembly and association and against poor working conditions, and endeavour to prevent exploitation of workers. In societies with low urbanisation where many people work in the informal sector and primary industries, trade unions will often only have a role in relation to the minority of people who work in the formal sector.

In such countries, traditional trade unions and other organisations can expand their role in society by lobbying to ensure that more of the national budget is spent on basic services such as health and education, or on the development of universal social safety nets. If such organisations succeed in establishing a dialogue with the authorities about overall budgetary planning, they can contribute to more fair distribution by advocating development measures aimed at broader segments of the population.

One new challenge for trade unions in many countries is that, as a result of globalisation, the employers are to an increasing extent powerful international corporations. Trade unions need knowledge to be able to meet this challenge. Through the ILO, international training programmes have been developed for this purpose. Norway will support participation by trade unions from developing countries in such programmes.

Cooperation between Norwegian trade unions and employers' organisations and their sister organ-

Box 4.8 Organisation in the informal sector

Efforts to improve pay and working conditions that are linked to formal income will not reach smallholders or others in the informal sector. In some countries, organisations have been established that work to improve working conditions in the informal sector. The Self-Employed Women's Association, which organises women in the informal sector in India, is one example. Another example is the Maria Elena Cuadra Movement in Nicaragua, an association that organises unemployed and working women and that offers training and carries out awareness-raising work among these women using a rights-based approach.

isations can be an important contribution to ensuring well-regulated working conditions in developing countries. It will also strengthen civil society and democratic development in these countries. Partners in developing countries will gain access to a larger network of trade unions and confederations at the regional and international level, which will open up opportunities for inspiration, the exchange of experience and learning.

However, evaluations show that cooperation between the social partners in developing and industrialized countries is demanding. Extensive knowledge of the local context is necessary in order to be a useful partner. The cooperation can be improved by involving other parties, for example through South-South cooperation or by involving aid organisations that work in this field.

The Government wishes to encourage more trilateral cooperation with Norwegian and international NGOs. Good results can also be achieved by channelling support through regional associations for the social partners in several countries.

Decent work

The ILO adopted the Decent Work Agenda in 2004. The agenda promotes social justice through employment and decent working conditions. This is followed up in four strategic objectives:

1. *Creating jobs*: An economy that generates opportunities for entrepreneurship, skills development, job creation and sustainable livelihoods for men and women;

Box 4.9 The International Labour Organization (ILO)

The ILO, which was established in 1919, is the UN's specialised agency for labour issues. The ILO differs from other UN organisations in its characteristic tripartite structure. Workers, employers and governments are full-fledged members with decision-making powers.

The ILO is responsible for developing and enforcing international labour standards, primarily through the adoption and follow-up of conventions and recommendations.

The ILO's conventions form the basis for employee rights, and they are important tools in the global implementation of these rights. Eight conventions are normally described as fundamental conventions, and they can be divided into four main categories: Abolition of child labour (138 and 182), elimination of forced labour (29 and 105), elimination of discrimination (109 and 111) and freedom of association and the right to collective bargaining, including the right to strike (87 and 98). The ILO's Convention No 169, the Indigenous and Tribal Peoples Convention, lays down, among other things, the right to be consulted and participate in decision-making. This is an important convention in cases where demands for the exploitation of natural resources come into conflict with indigenous peoples' traditional use of nature.

The ILO engages in extensive development cooperation to help member countries to endorse, implement and enforce its conventions and recommendations.

2. *Guaranteeing rights at work*: To obtain recognition and respect for the rights of workers, in particular disadvantaged and poor workers, through the ILO's fundamental conventions;
3. *Extending social protection*: To promote inclusion and productivity by extending social protection;
4. *Promoting social dialogue*: Involving strong and independent workers' and employers' organizations is central to increasing productivity, avoiding disputes at work and building cohesive societies.

The Decent Work Agenda is a priority for the Government, which launched its own Strategy for Workers' Rights within the Decent Work Agenda in 2008. The purpose of this strategy was to strengthen and coordinate efforts to promote workers' rights in other countries and to complement the efforts to combat social dumping in Norway.

Through its strategy, the Government wishes to promote decent work through Norway's foreign, development, trade and labour policy, and to promote greater policy coherence at the global and international level. The ILO has the global mandate in this field, but it is important to apply the principles throughout the multilateral system and make sure that they are consistently incorporated in the efforts to increase investments and in business initiatives in developing countries.

Norway has increased its contribution to the ILO as part of its follow-up of this strategy. Norway's cooperation with the ILO focuses in particular on strengthening workers' and employers' organisations, labour administration, the promotion of standards and fundamental principles and rights at work, gender equality and international policy coherence.

Social dialogue

Tripartite cooperation and social dialogue have made an important contribution to ensuring equitable distribution and broad-based prosperity in Norway. Social dialogue is a flexible tool for achieving economic and social change and development. Dialogue can be bilateral or tripartite, with or without the direct involvement of the authorities, informal or institutionalised, and it can take place at the national, regional, local or individual enterprise level. The main goal is to promote consensus-building and democratic involvement among the social partners. There is growing interest in the Nordic model in international debate about systems of government, and the Government therefore wishes to draw on Norway's experience of social dialogue in cooperation with interested countries.

Low- and middle-income countries vary greatly in terms of the conditions that exist for establishing a social dialogue. Among other factors, a certain balance of power between the parties is necessary. It is a particular challenge that a large proportion of the labour force works in the informal sector, but the employer and workers'

Box 4.10 Cooperation between LO and the Malawian trade union movement



Figure 4.7 Tobacco workers in Malawi cooperate with LO.

Photo: LO/Terje Kalheim.

LO has cooperated with the trade union movement in Malawi since 1996. Back then, very few people in the country knew how an independent trade union movement worked. LO supported both individual Malawian trade unions and the Malawi Congress of Trade Unions (MCTU) by providing training in bargaining, gender equality, organisation and recruitment. The trade union movement is now a voice being heard in the new democracy.

One of Malawi's most important export commodities, tobacco, was produced by workers under slave-like conditions. The workers resided on the plantations and lived on credit from the plantation owners. The research foundation Fafo's report *Smoking business* from 2000 brought conditions in the tobacco industry to the attention of the international trade union movement. LO helped the tobacco workers to form their own trade union. After long negotiations, the plantation owners accepted the trade union, and they have gradually started paying wages for work done. LO has also contributed to establishing an annual conference where the three parties discuss labour issues in Malawi. In 2011, the parties visited Norway to learn about the Nordic model.

sides are often undeveloped in the formal sector as well. Some countries will have poor framework conditions for developing these parties into independent actors in society. Developing the social partners and a fundamental understanding of social dialogue and tripartite cooperation is a long-term process. In the dialogue with partner countries, emphasis will be placed on cultivating an understanding that, in the long term, the social utility will outweigh the costs of establishing such systems.

The Confederation of Norwegian Enterprise (NHO), the Confederation of Norwegian Trade Unions (LO) and other social partners have initiated cooperation with partners in several low- and middle-income countries. The aim is to strengthen the social partners and contribute to social dialogue. So far, organisational development and capacity-building have been the priorities in this cooperation. The increasing international orientation of Norwegian business and industry makes this cooperation more relevant. Norwegian-owned companies have a responsibility to promote labour rights in their international operations and they can also contribute by transferring expertise.

Social dialogue and corporate social responsibility are important topics when politicians participate in business delegations to countries that qualify for Norwegian aid. Before each visit, an assessment is carried out of how labour market issues and corporate social responsibility can be included in the programme. It is natural to cooperate with the social partners on the planning and implementation of such visits.

4.6 The informal sector

The ILO and the World Trade Organisation (WTO) have estimated that the proportion of the working population in developing countries that work in the informal sector varies from around 40% in Uruguay and Thailand to between 75 and 80% in Bolivia and India. Many of them work in the primary industries. Globally, approximately 60% of the working population earn their living in the informal sector. The informal sector includes both self-employment and employment in informal enterprises. A low degree of formalisation can be a symptom of low productivity in the workplace, but it can also be a cause of it.

In most countries, the informal sector will consist of two fundamentally different parts. The largest part by far is where the poorest people earn



Figure 4.8 Domestic workers in India demonstrating for the right to decent working conditions.

Photo: ILO.

their living, for example in agriculture, which is essential in any society. The other part, which is criminal in nature, is where enterprises of varying size intentionally stay out of the formal systems, what is known as the black economy.

According to the ILO, the informal economy is characterised by poor job security, lower incomes, the absence of social services and fewer opportunities for participation in formal education and training programmes, all of which are important elements in the definition of decent work.

The informal economy may appear to be dynamic, since many people go in and out of work in a manner that represents a flexible response to changes in demand for labour. For the workforce, the informal sector can serve as a buffer for people who lose their jobs in the formal sector. There are many indications, however, that, because many enterprises remain very small, informal economies do not succeed in developing a robust and differentiated export base. Enterprises in the informal sector are incapable of generating

Box 4.11 Social security

In 2012, the ILO adopted a recommendation for a national social protection floor for people who lose their job or income. The ILO recommends that its member countries facilitate the provision of a basic income in the event of job loss, as a fundamental social security guarantee for those who need it.

This guarantee should provide basic income security for persons without sufficient income, including those who are unable to find enough paid work. This can be assured through various means, such as unemployment benefit, help to find work or other public employment measures.

Eighty per cent of the world's population have no social protection if they lose their job or income. The attitude to social security schemes has changed in recent years, from primarily being seen as an expense to being considered a sound investment. Countries with good social welfare systems have fared best during the financial crisis. Such systems create stability, but they can also make the economy more vital. People are more willing to take risks if they know that they have a minimum income to fall back on if something goes wrong.

enough profits to reward innovation and risk exposure, which are two key preconditions for long-term economic success.

The purpose of formalisation must be to improve the standard of living of the people who fall under the scope of labour legislation, while formal jobs also provide access to social protection. In the short term, however, formalisation can cause productivity to drop by changing people's incentives or because requirements imposed on businesses have a cost-driving effect. Therefore, there will often be local resistance to the formalisation of the economy. In reality, many jobs will be created in the informal sector, and many developing countries depend on the informal sector in the short and medium term to be able to create jobs for their growing workforces.

Self-employment and small-scale agriculture account for nearly half of all jobs in developing countries. While this is classified as unpaid work, it nonetheless falls under the definition of work. The

majority of this group are women. More than 80% of working women in sub-Saharan Africa work without pay. In addition, the definition of a "job" does not include housework (cooking and cleaning) or caring for children and elderly family members, unless the tasks are performed by someone who is employed and paid for the service.²

The Government will support processes aimed at strengthening the formalisation of the economy in poor countries. This is important, both in order to improve conditions for the many people who work in the informal sector and to improve the productivity and efficiency of the national economy.

4.7 More young people – both opportunities and challenges

The proportion of young people in the world has never been higher. Approximately one in six people are between 15 and 24 years old, and this age group is expected to continue to grow strongly in some of the world's poorest areas. In Palestine, more than 64% of the population are under 25 years of age, while in Uganda, which has the world's youngest population, approximately 80% are younger than 30. This creates great challenges for the authorities, not least in the education sector, and a need for new jobs.

More and more young people take upper secondary and higher education. In principle, young people are a country's most important resource, but high youth unemployment gives rise to social challenges. The youth unemployment rate is more than twice the average unemployment rate in several countries. According to the UN, global youth unemployment is 12.6% – and rising. It is expected to increase unless more jobs are created. In Africa, less than 10% of young people between the ages of 15 and 24 have paid jobs in the formal sector, and more than 10 million job-seekers join the labour market each year.³

The needs of the labour market change rapidly, and it is hard to predict demand for different types of know-how and skills in future. Close cooperation with business and industry on education and training is necessary in order to share equipment costs, to ensure the quality and relevance of the education provided, and to improve the availability of recruits with the qualifications

² The World Bank, World Development Report 2013: Jobs.

³ The African Development Bank, OECD, UNDP and UNECA, African Economic Outlook, 2012.



Figure 4.9 Many people in developing countries work in the informal sector.

Photo: Reuters/James Akena.

that business and industry want. A broad range of measures is needed aimed at formal and informal education, from primary school education, vocational training and apprenticeships in various workplaces to courses in industrial relations. Measures that could prove very important include training in project work and project management, as well as training in entrepreneurship and relevant forms of higher education.

A lack of predictability and the rapid changes taking place in the world make it particularly important to include young people's own perspectives when choosing political, economic and social measures directly or indirectly aimed at them. Democratic processes and systems that help to reduce the distance between the decision-makers and citizens, will also help to improve the situation for young people. New technology is rapidly changing the landscape of organisation, communication and opportunities to influence developments in society. Traditional institutions must include young people so that these institutions can be adapted to a greater extent to the opportunities young people have been given to participate in democratic decision-making processes.

The Government will:

- promote social dialogue by helping to build up workers' and employers' organisations
- increase its support for building up institutions that support decent work, such as labour inspection mechanisms, in developing countries
- promote opportunities for women to participate in working life and decent work in all relevant settings
- encourage closer cooperation between the Norwegian social partners and established aid organisations
- promote South-South cooperation between national and regional social partners in the global South
- invite the social partners to take part in the planning of business delegations in connection with state and official visits to countries that qualify for Norwegian aid, and, in consultation with the social partners, seek to utilise such visits to share Norway's experience of social dialogue and corporate social responsibility
- encourage the Norwegian business sector to increase its investments in developing coun-

Box 4.12 FK Youth

Fredskorpset (FK Norway) has integrated work by and among young people into its activities, and it has established a special exchange programme: FK Youth. FK Youth is an exchange programme for people between the ages of 18 and 25. Its objective is to teach young people and organisations to deal with today's global reality and to promote knowledge and engagement around human rights and global development issues.

We find the leaders of tomorrow among young people, but they are also an important part of society today. Fredskorpset supports the increasing global trend of seeing young people as a group with an active role; they are actors that help to shape society.

Young people who have participated in an exchange programme become more involved internationally, but they also acquire tools to help them to participate in the workplace and in voluntary work. The involved partners strengthen their organisation and international network, improve their cultural and practical understanding and increase their membership rates. The programme helps to strengthen the individual participants' competence – professionally, culturally and socially – in addition to strengthening civil society in both the global North and the global South.

tries, create decent jobs, and promote education and training opportunities for the local workforce

- attach importance to the integration of gender equality and human rights considerations in allocations to the Norwegian social partners and Norfund
- increase its support for renewable energy developments, with access for all as the overarching goal
- provide assistance for reviews of national investment plans with a view to promoting sustainable growth that creates jobs
- develop a Norwegian strategy for international cooperation on promoting fossil fuel subsidy reform
- use aid funding strategically to attract commercial investment in the energy sector
- support multilateral initiatives to increase global energy access through the World Bank, the regional development banks and in connection with the Post-2015 Development Agenda
- support a coherent, climate-friendly approach to the development of the energy sector
- assist developing countries in implementing their low-emission strategies.

5 Management of natural resources

Many developing countries have abundant natural resources. Sound management of these resources can create a basis for fair distribution and sustainable growth. The sale of natural resources can generate large revenues, but these revenues do not guarantee long-term economic growth and increased prosperity. There are particular challenges relating to non-renewable natural resources. On average, resource-rich countries have experienced lower growth and greater inequality than countries without such resources. These countries are also often characterised by instability and a high conflict level. This phenomenon is known as the resource curse.

Chile, Botswana and Norway are often mentioned as countries that have avoided the resource

curse. All three have succeeded in securing national ownership of the resources, while at the same time establishing good management regimes and distribution mechanisms and ensuring a high degree of transparency while minimising corruption.

Sustainable management of agriculture, forestry, fisheries and other renewable natural resources forms the basis for better food security and more employment opportunities, which, in turn, form the basis for more fair distribution and economic development. Renewable energy is discussed in more detail in Chapter 4.4.

The workforce is the most important resource in any country. In order to increase prosperity and ensure fair distribution over time, the workforce



Figure 5.1 Many developing countries have abundant mineral resources. Sound management of these can create a basis for fair distribution and sustainable growth.

Photo: The Ministry of Foreign Affairs/Stine Horn.

must be mobilised and utilised as efficiently as possible.

Norway's expertise in the field of natural resource management is in demand internationally. The Government will increase the assistance provided in this area to countries that wish to implement measures to ensure that their natural resources are soundly managed and extracted in a way that is not harmful to people or the environment and that the revenues are used in the best interests of the population as a whole. Through an active distributive policy, the authorities can ensure that increased tax revenues can be spent on welfare measures such as health and education, and on infrastructure.

5.1 Non-renewable resources

Exports of non-renewable natural resources, in particular petroleum and minerals, are the principal source of income for many developing countries. Much of Africa's economic growth in recent years has been driven by the demand for such natural resources.

The sale of non-renewable natural resources can generate large revenues for a period of time. In order to ensure a lasting increase in prosperity, the revenues must be used effectively and not be an obstacle to growth in other sectors. Good institutions that can manage the revenues, prevent corruption and ensure that extraction takes place in an acceptable manner are important in order to avoid the resource curse. With good institutions in place, the revenues can benefit the population as a whole.

On average, however, resource-rich countries have experienced lower growth and greater inequality than countries without such resources. For many countries, increased revenues from non-renewable resources have been accompanied by a higher conflict level, more corruption and environmental destruction.

There are many reasons for this. A lack of democracy, accountability and transparency often results in inequitable distribution that favours the rich and powerful. The extraction activities can pollute the air, soil and water and have harmful health effects. Natural resource extraction and increased public spending can result in other sectors, such as industry and agriculture, losing out in the competition for labour, which can weaken the basis for economic growth and increased prosperity. Fluctuations in commodity prices can cause great upswings and downturns in economic

activity, and unless public budgets are detached from fluctuations in revenues, it will be difficult to develop sustainable welfare systems. The combination of large revenues and weak government institutions also increases the risk of corruption, irresponsible borrowing and inefficient use of resources.

The resource curse can be avoided and the revenues can benefit the majority of the population, but this is contingent on good governance and long-term planning. Parallel development of infrastructure, governance, legislation, direct and indirect taxation, civil society and transparency is a precondition for promoting development and fair distribution.

Oil for Development

Norway has more than 40 years' experience of managing petroleum resources, and we have gradually developed a management regime that has attracted international attention. Norway's experience is in high demand. Norway has provided petroleum-oriented assistance since the early 1980s, with the Norwegian Petroleum Directorate as the most important actor. The Oil for Development programme (OfD) was established in 2007 as a continuation of an initiative from 2005. The purpose of the OfD programme is to "share Norwegian experience so that developing countries can manage their petroleum resources in a way that contributes to lasting poverty reduction and ensures that due consideration is given to the environment." So far, the programme has been based on three pillars: resource management, revenue management and environmental management. Support is also given to civil society and other actors that contribute to holding the authorities accountable.

The OfD programme is in higher demand than any other Norwegian aid programme. It has attracted international attention, and is an area in which Norway can make a great difference to development in poor countries. The potential revenues the authorities can earn from sound natural resource management far exceeds the amount a country would receive in aid. Sound management of natural resources can contribute to fair distribution and to reducing a country's long-term need for aid.

Three sub-goals have been defined for the programme: 1) to establish a legal and management framework for the petroleum sector, 2) to develop the management expertise required to carry out tasks responsibly, and 3) the authorities must be



Figur 5.2 The Oil for Development programme contributes to sound management of petroleum resources in partner countries.

Photo: Georg Osodi/Panos/Felix Features.

held accountable for the management of petroleum resources.

The main emphasis has been on sub-goals 1 and 2, while sub-goal 3 has been addressed through support for civil society. The Government wishes to increase support for actors that endeavour to hold the authorities accountable, so that this support can to a greater extent keep up with cooperation between government agencies. Otherwise, there is a risk that the assistance could contribute to increasing the competence gap between those in power and civil society actors, the media and the parliament, whose job it is to hold those in power accountable. The efforts to combat corruption, promote gender equality and train members of parliament and media representatives will be strengthened.

The Extractive Industries Transparency Initiative (EITI) is a key tool for increasing transparency about financial flows from petroleum and mining activities, cf. Chapter 8. If the authorities are to be held accountable for the collection and use of public revenues, information has to be accessible to civil society actors, and they must be capable of using it.

An important part of Norway's petroleum policy has been to utilise cooperation with international companies to develop Norway's competence, both directly in petroleum extraction activities and in related activities. The petroleum sector has thereby not only been a source of revenue, it has also had local ripple effects in terms of competence and employment. The development of local business and industry related to the petroleum sector and of education adapted to the petroleum sector's needs is incorporated into several of the OfD country programmes, and this area will be strengthened in the years ahead.

The OfD programme was evaluated in 2012.¹ The report concludes that the programme contributes to providing the partner countries with a better basis for managing their petroleum resources, and describes it as a Norwegian development policy flagship. The report finds the pillar philosophy (resource, revenue and environmental management) to be too rigid, and recommends

¹ Norad Evaluation Department, Facing the Resource Curse: Norway's Oil for Development Program, Report 6/2012 (Scanteam).

Box 5.1 Oil for Development

The Oil for Development programme is led by a steering committee consisting of the Ministry of Foreign Affairs, the Ministry of Petroleum and Energy, the Ministry of the Environment and the Ministry of Finance. The Ministry of Foreign Affairs has formal responsibility for the programme, while the other ministries and the Ministry of Labour are responsible for the content of the programme within their areas of expertise, and for quality assurance and provision of the expertise used. The programme secretariat in Norad is responsible for coordination and aid-related quality assurance, while the embassies are responsible for administering the individual agreements.

The programme currently cooperates with 18 countries, most of them in Africa. More countries have requested support. With Norwegian assistance, a petroleum act was adopted in South Sudan in July 2012. The act sets out strict requirements for transparency and facilitates the efficient exploitation of natural resources. Norwegian assistance has played a key role in the establishment of a well-functioning health, environment and safety system in the petroleum sector in Vietnam. The biggest OfD programme is currently in Uganda.

Box 5.2 Norwegian aid through the Continental Shelf Initiative secures the right to control over own natural resources

Pursuant to the UN's Convention on the Law of the Sea, the continental shelf of a coastal state automatically extends to a distance of 200 nautical miles from the baselines. If the outer edge of the continental margin is outside the 200-mile limit, the coastal state's continental shelf extends to that outer edge. Coastal states that wish to establish the outer limits of their continental shelf beyond 200 nautical miles, must submit the matter to the Commission on the Limits of the Continental Shelf in New York together with underlying technical and scientific data. Many developing countries find it challenging to prepare the necessary documentation. This was the reason why the Norwegian Continental Shelf Initiative was launched in 2008. The initiative is intended to assist coastal states in Africa in securing access to natural resources in accordance with the provisions of the Convention on the Law of the Sea. This will be an important contribution to economic and social progress in the countries in question.

that the different components are seen more in conjunction with each other. It points out that the safety aspect should have a more prominent place in the cooperation, as warranted by the programme's mandate. The report emphasises that the three pillars have been unevenly weighted, and that a strengthened OfD programme must place more emphasis on revenue management, safety and the environment. It also recommends expanding the cooperation with civil society, international organisations and other relevant actors. It is particularly important that the programme places more emphasis on overall good governance in its cooperation with recipient countries.

This evaluation also looked at the programme's gender equality perspective. Much of the programme targets the public sector, where developments in gender equality work are generally positive. The challenges are greater in the international extraction companies and the supplier industry, which are often male-dominated. It

is a major challenge that traditional female-dominated sectors are being outcompeted by the expansion of the extractive industries.

Several studies have also concluded that women are more concerned than men with areas that underpin the sustainable development of a country's petroleum resources, such as the environment, health and fair distribution. It is important, therefore, to strengthen the rights of women and their participation at all levels of society and to encourage increased participation by women in governing bodies and decision-making processes in the petroleum sector.

The evaluation will be considered and followed up in the normal manner. Many of the findings are consistent with the measures that the Government wishes to improve in the programme. One important conclusion is that more weight should be given to democratic development and distributive policy when deciding which countries to cooperate with,

and that efforts to promote good governance should be a clear priority in the cooperation.

The Government also wishes to involve the Ministry of Labour more closely in the OfD programme, particularly in connection with the safety aspects.

The OfD programme's main model is based on long-term institutional cooperation through formal agreements between the respective ministries in Norway and in the partner countries. The Ministry of Petroleum and Energy, the Ministry of the Environment and the Ministry of Labour normally delegate responsibility to their subordinate agencies: the Petroleum Directorate, the Directorate for Nature Management, the Norwegian Climate and Pollution Agency and the Petroleum Safety Authority. So far, the Ministry of Finance has used its own staff and the Petroleum Tax Office as revenue management advisers.

Up until now, resource management has been the most important component by far, with extensive cooperation over time with a large number of countries, while fewer results have been achieved in financial and environmental management.

Environmental management was the last component to be introduced, and has also been implemented in fewer countries. Demand for this component is lower than for the other two. This is due, among other things, to the fact that the national institutions tasked with addressing environmental considerations in the individual countries often are underdeveloped and have low status. The result is often that an environmental framework for petroleum activities is not in place from the beginning. Cooperation on improving environmental management must therefore be built up over time based on a long-term perspective. The Government will place more emphasis on including the environmental component in OfD cooperation with individual countries. This requires a more active dialogue with the recipient country, as well as a clarification of the fact that the OfD programme forms an integral whole. It is also necessary to increase Norway's capacity in this area.

Revenue management is only part of the long-term cooperation with two countries, Timor-Leste and Uganda. Several other countries have requested such assistance, but Norway's follow-

Box 5.3 Oil for Development has contributed the establishment of a petroleum fund and improved management in Timor-Leste

When Mari Alkatiri became prime minister of Timor-Leste in 2002, he asked for Norway's help to develop a petroleum management system based on Norway's experience. Ten years later, Norway has contributed more than NOK 100 million in assistance. Most of the funds have been spent on strengthening the country's petroleum management by providing expertise and through capacity-building measures, including education in petroleum-related subject areas.

With Norwegian support, Timor-Leste has developed:

- relevant management institutions
- a national petroleum fund to ensure transparent management of revenues under parliamentary control
- procedures for the announcement of licences
- regulations governing all aspects of exploration, extraction and taxation, including environmental management.

The Norwegian Government Pension Fund Global served as the model for Timor-Leste's

petroleum fund. As of the end of May 2012, the petroleum fund was worth more than NOK 60 billion. Timor-Leste has secured good contracts with international extractive companies, good tax revenues and full transparency about petroleum revenues. The OfD programme in Timor-Leste has produced a substantial return.

The petroleum cooperation with Timor-Leste began when the country was planning to develop institutions to manage its resources. Being brought in at an early stage made it easier to establish good management tools for the sector. The weak institutional basis helped to make the aid more effective, because there were no strong established power structures in the petroleum administration as there are in countries that have produced oil over a longer period. There was therefore less opposition to reform. A lesson that can be learned from Timor-Leste is that a five-year perspective, which is the normal time frame for long-term aid cooperation, is too short to achieve lasting results when the starting point is so weak.



Figure 5.3 Gold mine in Ghana. Gold remains an important source of income for Ghana, the country once called “the Gold Coast” by the British colonial powers.

Photo: Georg Osodi/Panos/Felix Features.

up capacity is limited. The Government will therefore consider various measures to increase capacity, such as using staff from the Petroleum Tax Office, Norwegian experts with relevant experience and experts from the International Monetary Fund (IMF) through an agreement between the IMF and Norad.

While the need for a comprehensive approach is underlined, the OfD cooperation will continue to be demand-driven. It is a fundamental precondition for achieving results that the partner country is in the driving seat. Donor countries will never be able to force through a policy that goes against the wishes of the partner country. The Government will therefore be stricter in its prioritisation when selecting partner countries in the OfD programme.

The interests and political room for manoeuvre of authorities in partner countries can vary over time. If parts of the programme are no longer in demand, the advantages and disadvantages of continuing the cooperation will be assessed. Such assessments will also be necessary if a partner country chooses solutions that clearly go against Norway’s advice. One of the most important les-

sons to be learnt from aid in general, and in relation to capacity-building in particular, is the importance of long-term involvement. A setback in the cooperation is therefore not necessarily an indication that it should be discontinued.

When choosing partners for the OfD programme, greater importance will be attached to whether the national authorities wish to combat poverty, improve governance and promote transparency and democracy.

Tax for Development

The Tax for Development (TfD) programme was established in 2011. At the core of the programme is the institutional cooperation between the Norwegian Tax Administration and the tax authorities in Zambia, Mozambique and Tanzania. Taxation of extractive companies, in both the petroleum and mining sectors, is a key element. Institutional cooperation and other forms of capacity-building in individual countries are seen in a broader context that includes international efforts to combat illicit financial flows and tax havens, research and knowledge development and support through

civil society. The state-building perspective is emphasised, as is the cultivation of a culture for tax payment in cooperation with civil society and the tax authorities.

While Oil for Development sees petroleum taxation as part of an overall resource management system, Tax for Development sees the taxation of non-renewable resources as an important part of an overall taxation policy and tax administration system. Their perspectives and approaches differ, but the main principles are the same, and the two programmes complement each other. Like OfD, TfD takes Norway's experience from the petroleum sector as its point of departure, but it extends its engagement to also include the mining sector and tax administration in general.

The need for a good national taxation policy is discussed in Chapter 6, and the fight against tax havens in Chapter 8.

Renegotiation of contracts

Following pressure from international financial institutions, the extractive industries were privatised in many developing countries in the late 1990s after 20-30 years of state ownership. This change was intended to improve the balance between the state and the market. However, many changes took place too quickly and without giving due consideration to long-term sustainable management, such as tax revenues, employment and environmental impact. The privatisation process was intended to secure the industry's position and address the need for new investments, increased production, jobs and export revenues.

In most countries, agreements were negotiated that included exploration and production licences for the extractive industries, but other activities and sectors were also affected. The terms and conditions were designed with a view to revitalising the industry, and the agreements often included extensive exemptions from the ordinary legislation that applied to areas like taxation, the environment and labour laws. Many of the extractive industry agreements also included extensive stability clauses that guaranteed low taxes in the future even if commodity prices increased strongly.

The privatisation in the 1990s took place during a period when metal and mineral prices were low. This situation is now greatly changed. Real prices have increased by several hundred per cent in a short time. So far, the production response has been uneven and delayed for many metals and minerals, because it takes a long time to increase production.

In this situation, there has been pressure on the part of developing countries to renegotiate mining contracts. Such demands often stem from civil society, opposition politicians, academics, trade unions and, to an increasing extent, from the government administration itself. The value of mining exports from Zambia increased from the equivalent of NOK 2 billion to NOK 50 billion from 1998 to 2011. Increased production can only account for slightly less than 10% of this increase. The tax potential is poorly exploited, however, despite Zambia having changed its tax regime with Norwegian support, a change that increased tax revenues by more than NOK 1.2 billion in 2011. This means that most of the income from Zambia's non-renewable natural resources is being taken out of the country. The situation is even worse in other countries.

There has been a strong increase in illicit financial flows in the wake of higher commodity prices. Several studies indicate that the practice of internal profit shifting that is widespread in the extractive industries and multinational corporations, among other things in the form of abusive transfer pricing, is behind a significant proportion of these financial flows, cf. Chapter 8. This challenge will grow in the years ahead, since developing countries have the greatest untapped potential for discovering and exploiting natural resources.

It is important that developing countries are given an opportunity to renegotiate unfair agreements with the mining industry. Norway has experience of supporting efforts of this kind in Zambia as part of the more extensive work to strengthen resource and revenue management in the mining sector.

Several international institutions and initiatives also offer assistance in this field. The African Development Bank has established a regional centre with experts that provide legal assistance in contract negotiations, and a pro-bono lawyers' project has also offered its assistance.

The Government will take the initiative for the establishment of an independent group of experts for the renegotiation of natural resource contracts for developing countries. It is important that principles derived from previous experience of such cooperation are adhered to. It is particularly important that the primary relation must be between the client (the national authorities) and independent international experts. The independence of the advisers must be indisputable. The goal is to assist developing countries in assessing whether grounds for renegotiation exist, and to assist them during the negotiations and the implementation of the new contract.

5.2 Renewable resources

Agriculture

On average, agriculture accounts for 34% of the gross domestic product (GDP) in developing countries, 65–80% of all jobs and approx. 40% of export revenues. There are great regional variations in these figures.

Food security is a challenge that will require major investments in the agricultural sector. The World Bank has estimated that growth in the agricultural sector is several times more effective in reducing poverty than growth in other sectors. The vast majority of poor people in the world depend on agriculture for their livelihood. Climate change, increasing pressure on agricultural land and water resources and the loss of biodiversity threaten this livelihood and hamper economic growth. Improved food security will depend on integrated land use management that safeguards the rights of the poor. Growth in the agricultural sector must be socially, environmentally and economically sustainable.

Agriculture is a business activity, whether it is carried out by smallholders or large entities. The agricultural value chain goes from the smallholder in the field and then via commercial actors. These actors include banks that furnish credit, actors that sell input goods and that buy and market the farmers' produce, as well as the food industry. Agricultural development depends on the ability of these actors to increase value creation in a sustainable manner. Public and private investments must benefit the poorest people if development in this sector is to contribute to improving food security. The position of small-scale producers in the value chain is strengthened through farmers' organisations and cooperatives.

Asian and Latin American agricultural production has increased considerably during the past 50 years, while Africa is lagging behind. As shown in Figure 5.4, cereal yields per unit area have hardly increased at all in Africa in the past 50 years, while they have more than doubled in Asia and Latin America. One reason for this is lack of access to input factors like fertiliser, pesticides and credit. Lack of infrastructure, access to local markets, storage capacity, access to technology and education and, not least, systematic discrimination against women, are other obstacles to agricultural development. There is a great need for agricultural reform and better organisation of the agricultural sector.

Africa's female smallholders account for between 70 and 80% of the production that makes

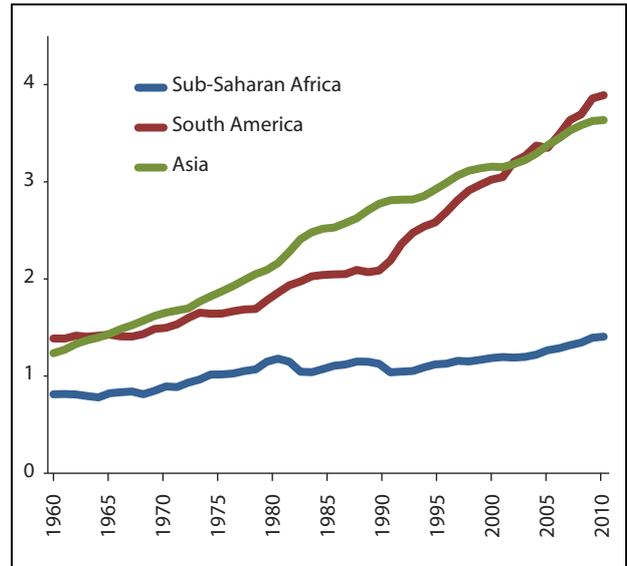


Figure 5.4 Africa is lagging far behind in terms of agricultural productivity, here measured as cereal yield per unit area.

Source: Africa Human Development Report 2012: Towards a Food Secure Future.

up the local food supply. Strengthening the position of women in agriculture is a precondition for increasing production, and for ensuring that the income from production will benefit households to a greater extent. Women's rights to property and inheritance and their access to input factors, education and markets are therefore among the most important areas to focus on.

In large parts of Africa, women only have access to land through marriage or via male relatives. There are also established patterns whereby women have less control than men over income from agricultural production.

Women's participation in farmers' organisations and cooperatives can also be hindered by traditional gender roles, whereby women are often marginalised in matters relating to money, power and decision-making. Women's organisations have an important role to play in supporting and promoting the needs of female smallholders.

According to the Food and Agriculture Organisation of the United Nations (FAO), equal access to productive resources and equal opportunities for women and men could increase local yields by up to 30%. In order to succeed in developing climate-resilient agriculture, which increases productivity and reduces poverty, women must be afforded real rights.

There is a great need for investment in African agriculture, both in small-scale farming and large-

scale agriculture. Private investments will have to play a substantial role. The authorities' ability to facilitate sustainable investments and enter into public-private partnerships will be crucial. Many African countries are poorly equipped to facilitate investments that promote sustainable development. This is due to inadequate distributive policies, poor governance and weak regulation of commercial land investments. The interests of smallholders and the rest of the local community are often not addressed.

This is particularly important in connection with purchases or leasing of large areas of land. In many places, foreign investors have taken over large areas at a very cheap price. Purchase or leasing contracts are often entered into without the public having access to information and without transparency. Consultation processes are frequently deficient, and people's lack of access to information is often exploited. Such investments, which hardly benefit the local authorities and population at all, are referred to as "land grabbing".

Norway has good land management systems, with well-developed title registers and legislation.

In the hydroelectric power sector, we have experience of sharing investment goods with affected local communities. This expertise will increasingly be used in our development cooperation. The work will be based on the Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests in the Context of National Food Security drawn up by the Committee on World Food Security (CFS), which emphasise supporting indigenous peoples and local communities.

Improving infrastructure requires major investments, and it may be a good solution to concentrate efforts in certain geographical areas. Agricultural growth corridors are being developed in Tanzania and Mozambique to strengthen all the links in the value chain and attract private investment. These corridors are limited geographical areas with a potential for increased production. They are also linked to ports, and this is intended to facilitate both access to imported input goods and the export of finished products. Through increased investment in infrastructure and commercial farms, these corridors can be



Figure 5.5 Quality control at a tea plantation in Kenya. Thanks to modern quality control systems, Kenyan tea has achieved a good position in the international market.

Photo: Sven Torfinn/Panos/Felix Features.

developed into centres of economic growth that smallholders can also benefit from, for example through contract farming, market access and agricultural advice.

Africa is highly vulnerable to climate change. Many African countries also have little capacity to adapt to these changes. This is particularly true for countries where rural poverty is widespread and where large groups of people lack both the necessary resources and knowledge about adaptation to future climate change. Poor smallholders are among the most disadvantaged groups. Even small increases in temperature are expected to reduce agricultural productivity.

Over the past 15 years, Norway has contributed to developing technology for use in climate-resilient agriculture in Africa, and during the past 5 years it has also played an active role in climate-smart rice production in Asia. The Norwegian Institute for Agricultural and Environmental Research (*Bioforsk*) has contributed to the development of climate-smart rice production in India, and the cooperation is being expanded to Bangladesh and Vietnam. Zambia and Malawi are both good examples of the nascent restructuring of African agriculture. There is still a great need for

further development of knowledge and technology.

Climate-resilient cultivation methods must be continuously supplemented with more climate-resilient plants and seeds. This is contingent on smallholders, scientists and breeders being ensured access to the genetic diversity of agricultural plants through international cooperation. Norway is an active contributor to international cooperation on the preservation and sustainable use of plant genetic resources under FAO's International Treaty on Plant Genetic Resources for Food and Agriculture (ITPGRFA). The Treaty's multilateral system for exchange of plant genetic resources for food and agriculture regulates access to these resources, as well as the fair distribution of benefits that arise through their use. Through the Treaty's Benefit-sharing Fund, Norway helps to support the preservation and further development of important traditional plant varieties locally in farmers' fields. The Treaty is an important precondition for the Global Seed Vault that Norway has established on Svalbard and for Norwegian-supported initiatives like the Global Crop Diversity Trust (GCDDT) and the Consultative Group on International Agricultural Research (CGIAR).



Figure 5.6 Fish will continue to be an important source of nutrition and food security in the future. However, this requires sustainable management.

Photo: Ken Opprann.

Box 5.4 Many live off and in forests

According to the UN, more than 1.4 billion people depend on forests for their livelihood. Many of them belong to vulnerable and marginalised segments of the population. The traditional role of women and their use of forest resources make them particularly vulnerable to changes in forest cover, climate change, lack of transparency and poor capacity in local forest management. The Government is therefore making determined efforts to involve women and local communities in this work. Indigenous peoples often live directly off nature and are particularly vulnerable to the consequences of deforestation. They are therefore an important target group. Cooperation with a number of local and Norwegian NGOs is one of the strategies employed to reach these groups.

The Government supports the work of multilateral organisations to help countries to develop national strategies or action plans for REDD+ (Reducing Emissions from Deforestation and Forest Degradation). They are based on transparency and participatory processes. Processes that result in better control of the utilisation of natural resources and strengthening of democratic decision-making are supported through the emphasis on good governance, transparency as regards revenues and the allocation of the funds, institution-building and local participation.

Fisheries and aquaculture

Fish resources represent a valuable renewable resource in terms of nutrition, food security, employment, income generation and export revenues. Sustainably managed, African fisheries can play an important role in the efforts to meet the need for safe and healthy food for a growing population.

Some of the world's marine resources are not harvested in an optimal or sustainable manner, however. According to the FAO, 13% of the world's fish stocks can be exploited more, 57% are fully exploited, while 30% of stocks are overexploited or recovering.

Illegal, unreported and unregulated (IUU) fishing weakens the resource base and limits poor

Box 5.5 WWF Norway's wildlife management programme in Namibia

WWF Norway supports an extensive wildlife management programme in Namibia that started in the early 1990s. The programme is called Community Based Natural Resource Management, and it contributes to improving the living conditions of the local communities involved, while at the same time protecting the fauna and nature through the sustainable use of resources. The legislation gives local communities rights to income from sustainable hunting, photo tourism and hotel and tourism activities. The scheme provides incentives for long-term, sustainable and democratic wildlife management. The local communities keep all the income and decide for themselves how to spend the money, for example on schools, health services, the development of tourism or cash payments. The principles for local management and distribution are highly relevant and have clear transfer value to other countries and areas, such as forest management/REDD+, fisheries management, renewable energy and oil/gas extraction.

people's access to income and food. These activities have destructive long-term effects on sustainable resource utilisation, the local economy and development in affected coastal communities. Measures must target commercial vessels that deliberately exploit poor monitoring capacity as well as local fishermen who use illegal fishing gear and operate in such large numbers that it weakens the resource base.

Climate changes in the form of more extreme weather, ocean acidification and changes in water and ocean temperatures affect the fisheries and aquaculture sector. Climate change adaptation is important. For example, the risk of escape and spread of infection must to a greater extent be taken into consideration when aquaculture facilities are established. Changes in the migration patterns of fish stocks as a result of climate change can affect national fisheries.

Norway has expertise about the whole value chain in the fisheries sector, and Norwegian advice can help to make fisheries and aquaculture an important growth factor in developing countries.

Such advice is in demand, also in the fields of fisheries supervision and coast guard duties. Access to capital is often a strongly limiting factor for the aquaculture industry in developing countries.

In order to improve coordination on Norway's part, the Ministry of Foreign Affairs and the Ministry of Fisheries and Coastal Affairs will establish an expert group to provide quality assurance of future aid in the area of fisheries, marine resources and aquaculture.

In December 2012, the Government presented a strategy for increasing aid aimed at strengthening food security in a climate perspective.

Forests

A reduction in deforestation and forest degradation will help to reduce greenhouse gas emissions. In addition, it will preserve biodiversity as well as the habitats and livelihood of large population groups. Sustainable harvesting of forest resources is an important source of materials, fibre, energy, food, clothing and medicines. It was agreed in the 2008 Climate Settlement in the Storting that Norway shall make active efforts to ensure international support for measures aimed at combating deforestation in developing countries, with sustainable forest management as an important element.

Sustainable forest management is necessary if forests are to contribute to development and fair distribution for population groups that depend on forest resources for their livelihoods. Wood is the most important source of energy for more than two billion people, and in many areas, forests are of fundamental importance to food security, water supply and erosion protection.

Norway's International Climate and Forest Initiative is described in detail in Report No 14 (2010–2011) to the Storting *Towards greener development*.

Wildlife management

For many countries with extensive wildlife resources and a rich natural diversity, tourism has become an important industry that creates many jobs and brings in foreign capital. However, the sector is often developed without taking account of the local population's needs and participation, or of their economic and cultural rights. Investors make big profits, while the local communities benefit little from the activities.

When national parks are established as an important part of the development of the tourist

industry, conflicts of interest often arise with the local population that has traditionally had hunting as a source of food and income. Their traditional way of life is redefined as poaching, and thereby criminalised, even though it differs fundamentally from activities engaged in to earn large sums of money from the illegal sale of skins, ivory and rhinoceros horns. Wildlife management agencies in more and more countries realise the value of cooperating with the local community instead of shutting it out. In such cooperation, it is important that local infrastructure is upgraded and that as many jobs as possible and a share of the profits go to local residents. It is also necessary to facilitate the marketing of products made by small local enterprises, such as handicrafts and local food products.

Norway has supported wildlife management in Zambia since 1990. This cooperation has produced good results and considerably increased Norway's expertise in this kind of aid.

5.3 Organised crime and natural resources

International organised crime linked to drugs, arms trafficking, piracy, human trafficking and natural resources is an ever increasing global challenge. Criminals steal common resources, create insecurity for individuals and society, and threaten to undermine stability and development in many countries. They buy protection from the authorities and use ruthless methods to secure market shares and power.

Calculations made by UNEP and Interpol indicate that illegal logging generates between NOK 180 and 600 billion every year. For fisheries, the amount is probably close to NOK 180 billion a year. Of the total proceeds of criminal activities, probably less than one per cent is confiscated.

Insufficient capacity in the criminal justice sector in developing countries and failure to share information and evidence across national borders limit states' ability to effectively prosecute those involved in organised crime. Through the UN, Norway supports the work of the United Nations Office on Drugs and Crime (UNODC) to combat money laundering and organised crime. UNODC's mandate includes assisting countries in their efforts to prevent and fight organised crime and terrorism, and it has become an important actor in the UN's work in this field.

Over the past decade, Interpol, UNODC and UNEP have all highlighted the increase in organ-



Figure 5.7 Illegal logging contributes to deforestation, undermines sustainable development and drains large revenues from the country of origin.

Photo: Sofi Mardiah/CIFOR.

ised natural resource crime. This type of crime has become more widespread, and it involves cartels from other areas of crime, for example drug cartels. They are attracted by the low risk and potential for high profits associated with illegal activities relating to fishing, logging, oil bunkering and the dumping of waste. These activities sometimes also involve forced labour and human trafficking.

In the case of illegal fishing and logging, the timber and fish must be integrated into the legal value chain, i.e. laundered. Criminal networks therefore have connections with companies, investors and individuals, including in industrialised countries. Information and evidence in a case will therefore normally have to be obtained from multiple agencies and several countries. This is made more difficult by the fact that much of the documentation is hidden in tax havens, a phenomenon that is discussed in more detail in Chapter 8.

The Government will focus especially on the extensive illegal fishing, particularly off the coast of West Africa, where the problem is especially prevalent. Norway will implement an EU regulation on trade in timber and timber products in 2013. The aim is to prevent illegally logged timber from being traded in the EEA. Enterprises that put timber and timber products on the market for the first time in the EEA must assess the risk of the product originating from timber that has been illegally logged, also outside the EEA. The regulation will make it more difficult to sell products if it cannot be verified that they originate from legal sources.

The criminal networks' extensive involvement in illegal logging and deforestation undermines the objectives of the Government's International Climate and Forest Initiative, and Norway will intensify its efforts in this field.

The extensive loss of resources, particularly timber and fish, undermine international climate

agreements and drain developing countries of substantial resources, while also undermining sustainable development. UNEP, GRID-Arendal and Interpol are now collaborating on the development of a platform for fighting forest crime. Norway supports this project, which is called Law Enforcement Assistance to Forests.

The collaboration between Interpol, UNODC, CITES (the UN's Convention on International Trade in Endangered Species of Wild Fauna and Flora), the World Bank and the World Customs Organization (WCO) – known as the International Consortium on Combating Wildlife Crime (ICCWC) – is important in order to prevent organised natural resource crime, globally as well as in individual countries. The Government wishes to further develop this collaboration, and to develop it into an effective programme for both fisheries and timber.

The exchange of information between states is also necessary in order to uncover organised natural resource crime. In Norway, Kripas (the Norwegian National Criminal Investigation Service) assists the Norwegian administration and shares information with other countries via Interpol.

As regards fisheries in Norway, the Government has established the Norwegian National Advisory Group against Organised IUU Fishing (FFA). The FFA is an effective inter-agency initiative aimed at combating illegal fishing through active information gathering in order to analyse and assess which objects to target in monitoring, control and surveillance work. This method can also be used to improve the control of other flows of goods, and it could play an important role in countries whose control capacity is more limited than Norway's. The inter-agency collaboration that the FFA represents can serve as a model for other countries. By strengthening the FFA cooperation, relevant information from the advisory group can be shared via Kripas/Interpol or bilaterally with a view to stopping illegal activities in fishing, logging, oil bunkering and dumping of waste in developing countries.

Many African countries have expressed a wish to establish similar forms of inter-agency collaboration. The Government will support such cooperation and enforcement structures with a view to strengthening the control of fishing and logging, among other things.

The Government will:

- attach greater importance to offering its Oil for Development (OfD) programme as a whole, including resource management, environmental management, safety management and financial management, in combination with support for civil society, parliaments and independent media
- be stricter in its selection and prioritisation of partner countries in the OfD programme, placing greater emphasis on democratic development and an active distributive policy
- strengthen the OfD programme by increasing capacity in the secretariat, and consider measures to increase the capacity of other partners as well
- expand OfD-related cooperation with relevant international actors
- increase its allocations to civil society and other actors that promote transparency in the petroleum sector in countries where Norway is engaged in OfD cooperation
- further develop its Tax for Development (TfD) programme
- increase capacity in the TfD secretariat and include more countries in the programme
- initiate the establishment of an international independent group of experts to provide assistance to developing countries that wish to renegotiate natural resource contracts
- spearhead efforts to achieve more sustainable management of marine and terrestrial natural resources at both the national and local level
- systematically raise and support demands for formal rights from smallholders and women farmers in particular
- increase funding for developing agriculture and enhancing food security by NOK 500 million over a three-year period (2013–15)
- support the United Nations Environment Programme (UNEP), the United Nations Office on Drugs and Crime (UNODC), Interpol and civil society's efforts to fight natural resource crime
- contribute to international exchange of information and cross-sector cooperation in the fight against natural resource crime
- strengthen efforts to combat organised forest crime within the framework of Norway's International Climate and Forest Initiative.

6 Active distributive policies

The Government contributes to improving national control over natural resources and increasing public revenues through programmes like Oil for Development and Tax for Development. Tax policy is an important distributive policy instrument. It should be used to even out differences between people, not increase them.

How tax revenue is spent is at least as important in the distribution context. Although Norway and other donors are still supporting the health and educational sectors in poor countries, it is an indisputable goal that all countries take over the financing of these services themselves as their tax revenues grow. Aid is not intended to relieve the authorities of responsibility for fulfilling the rights of the citizens.

The Government believes that it is important to maintain a dialogue with the authorities in recipient countries about the use of public funds. An effective distributive policy entails governments investing in public services that ensure people's fundamental rights and provide a safety net for the most vulnerable and marginalised segments of society. Naturally, Norway cannot

instruct other countries to pursue such distributive policies, but we can divert our aid to countries that choose to pursue an active distributive policy, and away from countries that use their tax revenues to further increase the differences between people.

6.1 Tax policy

Establishing a tax system is a key element in state-building, not just to fund public expenditure, but also to give the state legitimacy and develop democratic structures. Trust between the citizens and the authorities is a fundamental precondition for ensuring support for the tax system. This is often thought of as a social contract between the citizens and the state. The duty to pay tax comes with a right to participation and access to public services. Many countries lack the trust required for such a social contract to develop.

There is not much incentive for ordinary people to pay taxes if large international corporations and the wealthiest inhabitants are granted tax

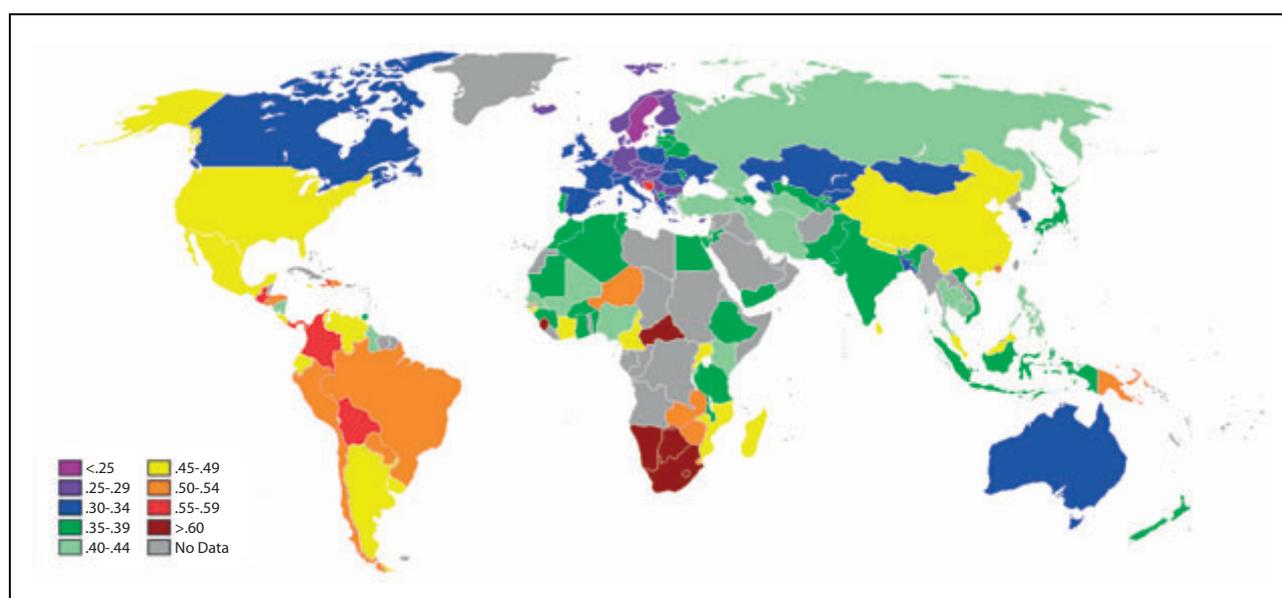


Figure 6.1 Internal inequality in countries measured by the Gini coefficient.

Source: CIA – The World Factbook 2009.

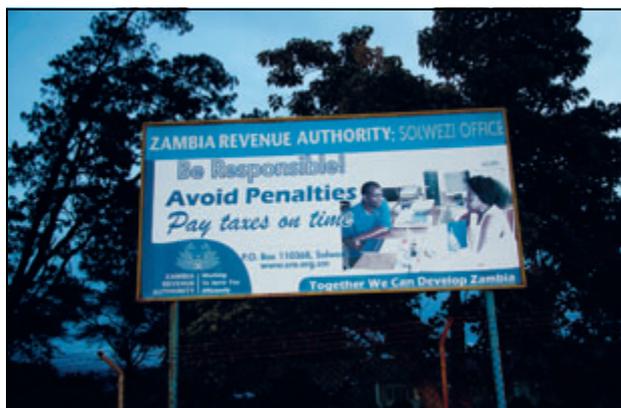


Figure 6.2 Various measures are used to boost tax morale and increase tax revenues.

Photo: The Ministry of Foreign Affairs/Stine Horn.

exemptions and hardly contribute at all. This is common practice in many developing countries. Starting by closing loopholes in the tax system and ensuring that those with the greatest ability pay their fair share of taxes, can both make financial sense and have a positive signal effect.

It is demanding for every country, including European ones, to develop good tax systems with a broad tax base. Tax policy and tax administration are closely linked. A perfect tax system can actually have a negative effect on tax morale if the authorities do not have the capacity and resources to enforce it. It is often better to start with a few fundamental elements that can realistically be implemented and build the system step by step. It is crucial to tax morale that the system and its enforcement are perceived as fair. Willingness to pay taxes correlates strongly with trust in the state and the tax administration.

With an average Gini coefficient of more than 0.45 a year in the period from 1990 to 2005, Latin America and sub-Saharan Africa are the two regions in the world where inequality is greatest. In the Western world, the Gini coefficient for the same period was below 0.34. Differences in the redistributive effect of public revenues and expenditure are the main explanations for the difference of 0.11.

In OECD countries, it is the expenditure side that has the greatest redistributive effect. On average, the redistributive effect of cash transfers such as public pensions and child benefit is twice as great as that of the tax system. If public educational and health services are included, the redistributive effect of public expenditure is even greater. As regards revenues, personal income tax contributes most to redistribution, while indirect taxes such as customs duties and value added tax have the oppo-

Box 6.1 Progressive and regressive taxes

Progressive taxes are taxes that, relatively speaking, are higher for people with high incomes and more wealth. Progressive taxes thereby contribute to making the distribution of income and wealth more equal after tax than it was before tax. *Regressive taxes* are taxes that, relatively speaking, are higher for people with low incomes and less wealth. Regressive taxes thereby contribute to making the distribution of income and wealth more unequal after tax than it was before tax. Correspondingly, *public services and transfers* can be said to have a progressive effect when the value of the services and transfers received equals a larger proportion of the income of people with low incomes, for example through a good, free public education. Public services and transfers have a regressive effect when the value of the services and transfers received equals a larger proportion of the income of people with high incomes, for example subsidised electricity prices, which primarily benefit the wealthy.

site effect. On average, low-income households pay three times as large a percentage of their income in consumption taxes as the richest tenth.

In developing countries, the level of public revenues and expenditure is considerably lower than in the OECD countries, while the redistributive effect of both the tax systems and expenditure is smaller. While the average taxation level in OECD countries is around 30% of GDP, it is around 15 to 20% in most developing countries. Developing countries rely more on indirect taxes such as value added tax, import duties and excise duties. Excise duty on fuel, alcohol and tobacco tend to have a progressive effect. Value added tax can cut both ways, and experience shows that exemptions for small enterprises, including agriculture and the informal sector, can have progressive results. Direct taxes on personal income and property are generally progressive in developing countries. However, the progressive effect is reduced by extensive exemptions and a narrow tax base.

Non-renewable natural resources are an important part of the tax base in many countries. It is a challenge that, if tax revenues from this source are very high, this can reduce the motivation to

develop a system of personal taxation. In some countries where poverty is rife, the proceeds from personal taxation will hardly cover the costs of developing the system. It is nevertheless important to maintain personal taxation – partly because it will increase the government’s accountability to the people, and not just to large corporations, and partly because it can prove difficult to introduce personal taxation later on once wage levels have risen. Ideally, the tax base should comprise all citizens, but with a basic tax-free allowance to ensure that people with low incomes do not pay tax.

The most widespread transfer systems often have a smaller redistributive effect in developing countries than in developed countries. Retirement pensions and other social security benefits are usually linked to work in the formal and public sectors. At the beginning of the 21st century, only about 40% of people of retirement age in developing countries were receiving a pension, compared with 90% in European countries. In addition, many developing countries spend large amounts on regressive universal subsidies, particularly related to energy.

Global direct and indirect taxes

Taxing the richest segment of the population is a challenge in most countries. The bulk of their earnings is often capital income, and since capital is far more mobile than labour, more international cooperation will be required if taxation is to be effective. International cooperation on transparency relating to financial transactions is discussed in more detail in Chapter 8.

The challenge of ensuring that tax systems are fair is even greater at the global level. Taxpayers in Europe and the USA pay taxes that will also be spent on development in poor countries. This has been generally accepted for more than 50 years. However, the current trend, whereby some groups in poor countries with high growth rates are earning a great deal without paying taxes to their own country, could undermine the willingness to provide aid. Considerations of fairness make it paramount that very rich individuals from emerging economies also contribute to the common good. This is primarily a national responsibility, but it can also be addressed at the global level.

More and more people advocate the introduction of global taxes to target the economic financial elite in all countries, regardless of whether their home countries are rich or poor. This could be in the form of taxes on air travel, financial transactions and currency transactions, for example. The revenues raised should primarily be used

to tackle global challenges that do not originate in individual countries, for example combating infectious diseases and transboundary environmental challenges.

A group of experts has calculated that a global currency transaction tax of 0.005% could raise as much as NOK 200 billion a year. However, the introduction of such a tax will require broad international support, including the support of influential countries. The Government is working in the international arena to win the support needed to introduce a currency transaction tax of this kind.

6.2 Tax exemption for aid-funded goods and services

Norwegian development cooperation emphasises strengthening resource management and tax administration, as well as combating illicit financial flows. The many exemptions that apply are a common characteristic of tax systems in many developing countries. The exemptions can apply to national sectors and individual enterprises, politicians and civil society organisations as well as foreign companies. It is also common for donors to demand tax exemptions for aid-funded goods and services. It is administratively demanding to handle all these exemptions, and they also contribute to undermining the tax system in general and make tax evasion easier for actors and products that are not formally exempt. It may seem contradictory that Norway, on the one hand, works to promote tax systems where many contribute to the common good, while, on the other hand, it is part of the exemption culture by demanding tax exemptions for aid-funded procurements. The Government will therefore, as a rule, no longer include requirements for tax exemption in bilateral agreements on government-to-government aid.

No longer demanding tax exemption has been on the international agenda for several years, and many donor countries support the principle. Several donors also abstain from demanding tax exemptions in individual cases. Some donor countries strongly oppose this change, however, and the international community has, so far, made little headway in the direction of common action. The World Bank and some other multilateral development banks have changed their policy, so that it is now common practice to pay taxes for projects that they fund. In 2012, Denmark decided to no longer demand exemption from value added tax for the country’s bilateral aid.

The best effect will be achieved if as many donors as possible stop demanding tax exemptions on the broadest possible basis, and the Government will work to this end in relevant international forums and recipient countries. Moreover, if some countries lead the way, others may follow.

Norway channels aid funds via international organisations, Norwegian NGOs, and organisations and public institutions in partner countries. It is only in agreements with the authorities in partner countries that we demand tax exemptions, and this is therefore the most natural place to start if we wish to change this practice.

Norwegian NGOs often cooperate closely with organisations from other countries, and many of them receive support from several donor countries concurrently. In this situation, it would be complicated to introduce a separate taxation practice just for Norwegian funding. Coordination at country level is in line with good aid practice, and the Government will therefore not instruct NGOs to stop demanding tax exemptions for Norwegian funds. However, the Government will encourage Norwegian NGOs to refrain from demanding tax exemptions when practically possible, and to budget for taxes in their applications for public funding.

In practice, taxes paid can be regarded as non-earmarked support for the authorities similar to budget support. Assessments relating to governance are part of the basis for deciding whether to enter into an aid agreement with the authorities of a country. At the same time, a certain amount of flexibility will be necessary in implementing the new practice, for example in connection with co-funding with other donors and if the tax demanded is obviously unreasonable or does not comply with internationally accepted taxation norms. In humanitarian crises, tax exemptions will still be necessary in order to ensure that aid is provided in accordance with international humanitarian principles.

Experience of the change in practice will be evaluated within three years.

6.3 Health and education

The key element in a good distributive policy is guaranteeing all citizens the right to fundamental health services and education. Norwegian and international aid and development policy has long emphasised this element and provided extensive support for health and education programmes.

In the long term, it is nevertheless important that countries that are able to do so, take over responsibility for financing these services themselves. According to the Global Monitoring Report 2012, the percentage of their national budgets that low-income countries spend on education has increased by an average of 7.2% a year over the past decade. The Global Partnership for Education (GPE), to which Norway is an important contributor, emphasises that the recipient countries should increase the percentage of the national budget spent on this sector.

Education is a precondition if young people are to find work in growth sectors, and a good public education system is important in order to promote social equality. Education equips people to stand up for and fight for their rights. Education promotes political participation and democracy. Education is a key to paid employment and higher income levels, and thereby facilitates increased social mobility. A more educated workforce provides a better basis for economic growth, which, in turn, gives the authorities greater freedom of manoeuvre to improve distribution.

The right to education is incontrovertibly laid down in several of the UN's key human rights documents. The Convention on the Rights of the Child states that primary education shall be free, and Norway supports this important principle. Research nevertheless shows that, even if free education is provided, other expenses, such as the cost of uniforms or textbooks or the cost to the household of losing a child's labour, can be an obstacle to children actually enjoying this right. Poverty forces families to make difficult choices. It is the state's responsibility to ensure that the right to education can be fulfilled in practice.

Recent UN decisions concerning children and armed conflict underline the importance of children and young people in conflict areas getting the education they are entitled to. It is in such countries and regions that the goal of universal education is furthest from being achieved. Vulnerable and marginalised groups, such as ethnic minorities, people with disabilities, refugees and internally displaced persons, single providers and orphans, are most at risk. Girls and women are also often more vulnerable in such situations. Norway has taken particular responsibility for ensuring that children in conflict areas receive an education and for girls' right to an education.

The difference between the number of boys and girls who attend school has narrowed. Globally, there are now 97 girls in primary school for every 100 boys. The differences between boys'



Figure 6.3 Norway gives priority to girls' education.

Photo: UN Photo/John Isaac.

and girls' participation in education are great between countries and within countries, however. At the lower secondary school level, there is a bigger difference between boys' and girls' participation.

Norway's most important partners in education-related aid are the World Bank, GPE, the United Nations Children's Fund (Unicef) and NGOs.

A population in good health is a social asset that forms the basis for productivity and economic growth, while poor health results in higher costs as well as lower productivity. There are clear connections between the distribution of income and health status, between the distribution of health services and income, and, even more self-evidently, between access to health services and health status.

Health is very unevenly distributed globally, regionally and nationally. One example of inequality in health status is life expectancy at birth, which is 32 years in Swaziland and around 80 years in Norway. The health-related MDGs (4, 5 and 6) have contributed to substantial reductions in child mortality, the prevalence of malaria and

AIDS-related deaths, but maternal mortality is lagging behind in many areas.

There are also big differences in health status between income groups within developing countries. Families with low incomes have poorer health and less access to health services. They are also more vulnerable when disease strikes. The consequences are greater for people who become ill, but also for their families, who are often in danger of ending up in a poverty trap. This is particularly true if the costs of treatment or medicines are high, but also in connection with loss of income as a result of a provider falling ill or if sick children require care that makes it impossible for the provider to continue to work.

Many middle-income countries with a high degree of inequality, for example India and Indonesia, have universal health coverage as a goal. Surveys carried out in India show that health-related expenses is the single factor that contributes most to keeping people in deep poverty. Inequality can be reduced by making a defined minimum of health services available to the whole population and organising ways of financing them, for example general health insurance. This work

Box 6.2 Education contributes to social equality in Nepal

Universal access to education promotes equality. A major effort has been made in Nepal over the past 20 years to ensure that all children get the education they are entitled to. The percentage of public expenditure going to education has nearly doubled. This has made it possible to invest in new schools and more classrooms and to train more teachers. Scholarship schemes have also been created in order to assist disadvantaged groups.

The effort has produced results. Despite the violent conflict that raged throughout Nepal from 1996 to 2006, an educational revolution has taken place in the country. Nepal has gone from below average compared with other developing countries to being among those most likely to achieve MDG 2 on universal primary education by 2015. In 1990, 64% of all children registered for the first grade. Only half of the young people between the ages of 16 and 24 could read and write. Today, more than 95% of all children start school. The difference in the proportion of boys and girls who start school has almost been evened out. This positive trend is also apparent in higher grades, with an increase in all grades

and diminishing differences between boys and girls. The proportion of young people between the ages of 16 and 24 who can read and write has risen to more than 85%. A number of processes are under way to ensure that the public education reaches vulnerable groups, such as children from low castes and children with disabilities. Work is also under way to improve the quality and relevance of education at all levels.

As shown in a survey of living conditions recently carried out by the World Bank, the public education initiative targets poor people in particular. Nearly 40% of public subsidies for primary education go to the poorest fifth of the population. The richest fifth receives 6%. The poorest are also clearly prioritised in relation to lower secondary school, but not at upper secondary and university level.

Norway and several other countries have supported Nepal's education programme for years. At the same time, Nepal has also increased and maintained its funding of the education sector, and the authorities have committed themselves to spending approximately 20% of the national budget on education.

has also been placed on the agenda through the joint Foreign Policy and Global Health Initiative in which Norway participates.

In its global health efforts, the Government prioritises MDGs 4 and 5 – reduction of child and maternal mortality. The most important partners in this work are the WHO, the GAVI Alliance and the Global Fund to Fight AIDS, Tuberculosis and Malaria. The WHO, the UN's specialised health agency, works to promote the MDGs. The WHO's mandate is to contribute to better health for all and to be the leading coordinating body for international health cooperation. The WHO plays an important role in setting global norms and standards. In addition, the WHO provides professional support to developing countries in connection with the implementation of recommendations and standards, the strengthening of health systems and the development and implementation of national health plans.

6.4 Direct cash transfers

The combination of increasing inequality, high growth rates and less reduction of extreme poverty than expected has increased the need to consider direct redistribution to the poor. Direct cash transfers to select groups have proven to be a cost-efficient measure. Such cash transfers have become much more widespread, and evaluations and other research indicate that they often work well and are a well-targeted distribution instrument.

It is seldom possible to come up with a simple answer to the question of what prevents inclusive growth. Many countries use methods to identify and, in some cases, rank obstacles, and there are usually many factors that must be addressed concurrently. Country-specific analyses show that there are differences in what constitute the most important obstacles to growth. There are certain common factors, however, such as energy supply, business climate, skill level and macroeconomic and political stability.



Figure 6.4 Direct cash transfers have proven to be an effective distribution instrument.

Photo: Reuters/Erik De Castro.

Measures aimed at creating jobs and removing poverty traps are often interdependent. Direct support for poor households and small-scale production will work better if job creation is emphasised at the same time. Correspondingly, there are examples of investments in energy supply and infrastructure that have failed to produce the expected results due to a lack of expertise or other preconditions for development. There is no general answer to which combination of measures will produce the best result; it depends on the local context.

Direct financial support can increase the effect of other measures, such as increasing the range of services provided and investments in infrastructure. Cash transfers make it possible for families to improve their health and nutritional status. This is crucial if improved educational opportunities for the poor are to result in better learning outcomes. Increased human capital will also improve poor people's opportunities to engage in economic activity when investments in infrastructure increase.

The extensive transfer schemes in modern welfare states have other primary economic functions than redistribution. They can be public social insurance schemes (unemployment benefit, sickness benefit) or they can replace private sav-

ings (retirement pensions). Social safety nets are increasingly seen as a way of improving the overall functioning of the economy.

In developing countries as well, the issue is how to protect individuals in a manner that strengthens the economy as a whole. A broad approach to social safety nets, rooted in the right to social protection under international law, is gaining support internationally. The World Bank launched its new Social Protection and Labor Strategy in 2012. Its main message is that various forms of safety nets should be included in national development strategies in all developing countries.

The way in which transfer schemes are designed and organised will vary depending on the situation in each individual country. Low-income countries face greater challenges and have less economic freedom of manoeuvre than middle-income countries. It is quite common for transfer schemes in middle-income countries to be permanent, rights-based and organised and financed as part of a state system. In low-income countries, such schemes are usually short-term arrangements aimed at addressing temporary problems. They are often organised outside the state system and partly or fully financed by aid

Box 6.3 Direct cash transfers in Brazil

Fair distribution and the fight against poverty came high on the agenda in Brazil when Lula da Silva won the presidential election in 2002. Many social programmes targeting poorer segments of the population have been introduced in the past decade. The programmes have proven both sustainable and effective in the fight against poverty.

The largest and best known programme, *Bolsa Familia*, was established in 2003. Its goals include reducing poverty and inequality by guaranteeing poor families a minimum income, strengthening fundamental social rights by making school attendance and the use of health services a condition for support, and by improving employment opportunities for recipients of such support.

Bolsa Familia has been gradually expanded, and in 2012 it covered 25% of the country's population. The authorities' spending on the programme amounts to 0.46% of GDP. The programme transfers money directly to mothers on the condition that they attend prenatal and postnatal check-ups and that their children are vaccinated and attend school. Strengthening women's independence and influence in the nuclear family is an important element. The amount of support paid depends on the family's income level and age composition. In 2012, the average monthly payment was around NOK 400.

This targeted policy has produced impressive results. Extreme poverty has been reduced by 40%, and income inequality is decreasing.

funds. Norway has supported a World Bank programme to increase developing countries' own capacity in this area. It is called Rapid Social Response.

Poverty means having little or no income, and it often entails uncertainty and variation in income over time. Even a modest, but regular sum will enable households to maintain a certain minimum consumption during hard times and maybe invest a little when times are good, thus improving their long-term income potential. The transfers can represent a safety net that improves resilience in relation to crises. The support empowers recipients

and gives them an opportunity to prioritise their own spending. This requires functioning local markets, or at least that the fundamental preconditions for markets to begin functioning are present. One drawback associated with handouts of food and other goods in crisis situations, is that they can undermine national production and local markets. Direct cash transfers strengthen purchasing power and demand, thus stimulating local markets and leading to positive ripple effects in the local economy.

In middle-income countries such as Brazil and Mexico, direct cash transfers come with conditions attached. This can be necessary in order to ensure the support of the electorate and taxpayers. Transfers can, for example, be conditional on children attending school or undergoing health check-ups. Experience from Latin America shows that, for the most part, direct cash transfers improve the living conditions of the families that receive them and have a positive effect on school attendance and the use of health services.

Unconditional transfer schemes are more common in African countries. However, experience indicates that these schemes also have positive effects on school attendance and the use of health services. Poor families give high priority to their children when their economic freedom increases. This is important in countries with low administrative capacity, because conditional payments require more administration. Moreover, health services in African countries are in many places not sufficiently developed for their use to be made a condition.

In Norway and other welfare states, the extent to which various transfer schemes can weaken the motivation to work is an issue. There is very little evidence to indicate that this is a problem in developing countries. On the contrary, it has been found in some cases that transfer schemes strengthen the recipients' capacity to seek work and participate in the labour market. Another explanation for the difference in behaviour between rich and poor countries is that, for the poorest people, leisure time is less valuable than income from employment.

An overall assessment of the available experience of direct cash transfers and the major poverty challenges we are facing indicates that transfer schemes should be given higher priority in developing countries. A lot is known about the effect of direct cash transfer schemes when they are organised in a sensible manner, and also about the potential pitfalls, including the risk of corrup-

Box 6.4 Direct cash transfers in India

In 2013, India will introduce a new transfer system for the poor, called Direct Benefit Transfer.

The cash transfers are based on a new electronic ID system and corresponding personal bank accounts. In order to withdraw money, the recipient must present an identification number that all Indians will be issued with. So far, about 220 million Indians have such e-IDs. Biometric data (fingerprints) have been obtained to confirm people's identities.

The programme is inspired by the Brazilian *Bolsa Familia* programme. It is a parallel to the welfare programme Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) from 2005, which is a “cash-for-work” programme that guarantees rural workers 100 days of work a year and an income of approximately NOK 13 a day.

The new programme is much more technically difficult to implement, considering that only 40% of India's population of 1.2 billion have their own bank accounts. Moreover, only 36,000 of India's 600,000 villages have banking services. The Indian government is therefore working to increase the number of small banks in rural areas.

It is important for the Indian authorities to rationalise the many different welfare transfer schemes – from handouts of goods to various social security benefits, pensions etc. Redistribution is a challenge in a country where most people are still living near or below the poverty line. Today's system is complex and not very transparent, which impedes efficiency. Corruption and fraud are a problem when the state purchases food, chemical fertilisers and paraffin for shops where poor people can buy the products at a reduced price or receive them as handouts. Replacing this system with direct cash transfers will help to reduce these problems.

In the long term, a cash transfer system of this kind could form the basis for a modern tax system, which India does not have at present.

tion that lies in inadequate adaptation to the recipient country context. On this basis, the Government will increase its support for the development of direct cash transfer schemes as part of a comprehensive and poverty-oriented development policy. Funding for the actual transfers will only be provided for limited periods and only to low-income and lower middle-income countries.

6.5 Financial management systems and national budgets

Good public financial management is important to a country's macroeconomic stability, transparency and accountability relating to political priorities, administration and democratic control over public funds. Norway plays an active part in the efforts to increase financial transparency and accountability relating to the use of public resources, both at the international level and in individual countries. This is regarded as important, both in the fight against corruption and to ensure the efficient use of resources.

If donors channel aid through countries' own public administration systems instead of establishing parallel donor systems, this will help to develop the national systems. Supporting the development of certain aspects of public financial administration can also reduce the risk of misappropriation of funds and increase transparency about public expenditure. Norway supports broad financial management reforms in several countries, not least in relation to supreme audit institutions, tax administration and petroleum management.

Strengthening supreme audit institutions contributes to democratic control and transparency as regards the use of public funds. This work has begun to produce results in that reports from supreme audit institutions are increasingly being debated in the parliaments of partner countries. Cooperation between supreme audit institutions in the South and institutions in the North, including the Office of the Auditor General of Norway, has also increased. The Government supports such professional cooperation.

Analyses indicate that there have been improvements in recent years and that there is now greater transparency in public financial administration in Norway's partner countries. At the same time, improving whole systems requires a long-term perspective.

Box 6.5 Monitoring public expenditure in Angola

Angola's economy has changed rapidly since the peace agreement was signed in 2002, and economic growth has been high in the past decade. This growth is completely driven by oil production. Despite the increase in revenues, 38% of the population is still living below the poverty line (2010), and the country was ranked number 148 of 186 countries on the UN's Human Development Index (HDI) in 2013.

During the past three years, Norwegian Church Aid, in cooperation with its partner organisation the Council of Christian Churches in Angola (*Conselho de Igrejas Cristãs em Angola/CICA*), has worked to strengthen and increase the capacity of civil society in Angola in order to monitor and provide input to the national budget.

CICA has monitored both national and local budget processes through focus groups and local groups in different parts of the country. CICA has also visited local communities to obtain their input to the budget.

In November 2012, CICA held the first conference about its budget work. The conference was well attended, and it attracted national radio and TV coverage. The head of CICA presented a summary of the conference to Angola's vice president. This type of lobbying can help to highlight distribution issues.

The Government will:

- maintain a dialogue with the authorities in developing countries on the use of public funds, particularly in those countries where we are helping to increase tax revenues
- give priority to cooperation with countries that want to pursue an active distributive policy
- continue its level of support for health and education services
- continue its global health efforts in line with the white paper *Global health in foreign and development policy*
- work in the international arena to win the support needed to introduce a currency transaction tax
- make it clear that the aim is for partner countries to be able to finance health and education services themselves, and emphasise the importance of ensuring real access for all. Particular focus will be placed on equal participation by girls and boys in education beyond primary school
- emphasise that developing countries are eventually to take over the full financing of their health and education services
- support the development of schemes for facilitating direct cash transfers to vulnerable groups, and provide funding for such transfers for limited periods in low-income and lower middle-income countries
- as a general rule, no longer include requirements for tax exemption in bilateral agreements on government-to-government aid.

7 The UN and the multilateral financial institutions

In recent years, multilateral organizations have devoted more attention to fair distribution. Countries with very different interests and ideologies are trying to agree on a common set of norms and standards for a policy that promotes development. The UN agencies and the multilateral financial institutions include fair distribution in the development debate in different ways.

The multilateral financial institutions¹ are primarily influential in relation to the economic

¹ The World Bank, the Asian Development Bank, the African Development Bank, the Inter-American Development Bank (IDB) and the International Monetary Fund (IMF).

aspects of distribution. Economists now acknowledge that growth alone, even over time, is not enough to eradicate poverty.

The UN derives legitimacy from its universal membership. In combination with the UN's universal mandate and rights-based approach, this makes the UN a suitable arena for the debate on fair distribution. This applies both to negotiations between states and to the UN agencies' expert advice to individual countries. The UN plays a key role in developing international norms and standards and in helping member states to implement them.



Figure 7.1 The UN and the development banks are important meeting places for all countries in the world. They will be made active use of to promote fair distribution.

Photo: UN Photo/Joao Araujo.



Figure 7.2 The World Bank supports many large-scale infrastructure projects. The photo shows a hydroelectric power plant in Ghana.

Photo: The World Bank/Arne Hoel.

7.1 Inclusive growth and the multilateral financial institutions

The World Bank has revitalised its focus on poverty as a result of President Kim's clear goal of eradicating poverty by "bending the arc of history," and to ensure that the Bank promotes "shared prosperity".² This concept incorporates the goal of inclusive green growth as well as job creation and fair distribution. The approach will also encompass countries that are emerging from the low-income category.

President Kim's message in the World Bank's annual report for 2012 is that the Bank is in a unique position to intensify its efforts to promote inclusive and sustainable growth and social development. The development of cost-efficient social safety nets is the individual measure he emphasises as being particularly important. Women's contribution to inclusive growth based on equal opportunities is highlighted in the Bank's WDR 2012: *Gender Equality and Development*.

² Jim Kim at the Annual Meetings of the International Monetary Fund and the World Bank Group in October 2012.

Inclusive growth has traditionally focused more on productive employment than on the redistribution of income, and the concept attempts to merge poverty and growth analyses while also making the analyses country-specific. Inclusion has traditionally been about growth and the eradication of poverty, but the financial institutions are increasingly realising that it is also about social cohesion. They have acknowledged to varying degrees that equality of opportunity is not enough to even out the large and often growing income disparities in a country. It is important that equality of opportunity is followed up by less inequality in terms of income and resources.

The development of the concept of inclusive growth was partly driven by international debate, by boards consisting of representatives of developing countries and industrialised countries, and through gathering experience. Many countries, and not least the developing countries, are sceptical about including redistribution in the debate on inclusive growth.

The multilateral development banks are concerned with distribution between countries, within countries and between different groups

(ethnic groups, gender, urban/rural). Several of the banks are researching the effects of budgetary policy on income disparities, and are looking at the effect of taxes and transfers in individual countries. The World Bank, the Inter-American Development Bank (IDB) and the Asian Development Bank all point out that progressive taxes alone have not produced the best redistributive effect in Latin America and Asia. They confirm that certain types of transfers, for example cash transfers from the state to households, have positive effects in most countries, cf. Chapter 6.

Social protection is emphasised as an important instrument for reducing inequality and poverty and contributing to inclusive growth. The development of social protection, with an emphasis on safety nets, is viewed as a long-term effort that must be integrated into the policy dialogue. So far, efforts in this area have often been linked to crises and short-term projects. The multilateral development banks are now looking at targeted social safety nets as one of several means of ensuring inclusive growth and as a supplement to basic health and educational services.

Inclusive and sustainable growth and regional integration are the main topics addressed in the long-term strategies of both the African Development Bank and the Asian Development Bank. They focus on giving people an opportunity to participate in economic activities and guaranteeing access to social services such as health and education. In addition, the development of social safety nets, investments in active labour market policies and guidelines, insurance, welfare schemes, child benefit and crisis management will also help to identify and assist the most vulnerable groups. The IDB's main goal is to reduce poverty and inequality and to achieve sustainable growth in the region by the end of the next decade.

The World Bank and other financial institutions have much stricter lending terms for middle-income countries, and the grant element of loans lapses when these countries are no longer categorised as low-income countries. A more gradual transition from one category of lending terms to another is being considered in order to counteract the negative effect the transition can have on marginalised groups in a country. The Government is positive to a more gradual and flexible transition. This must be conditional on the country in question pursuing an active distributive policy, however. This issue will be on the agenda of the boards of the multilateral development banks and in replenishment negotiations in the time ahead.

Box 7.1 The Asian Development Bank

Two-thirds of the world's poor live in Asia. The Asian Development Bank recognised at an early stage that the bank's vision of a region free of poverty cannot be achieved through economic growth alone. Growth must be inclusive if poverty is to be reduced. The bank's long-term strategy from 2008 includes this aspect, in addition to goals of sustainable development and regional integration. The bank's approach to inclusive growth contributes to better distribution and reduced income inequality. The bank runs programmes explicitly aimed at distribution, although it is cautious about explicitly discussing redistribution between rich and poor people in individual countries.

Inclusive growth will be promoted through efforts in three areas:

1. By improving economic opportunities and creating more jobs, among other things by investing in infrastructure, technology, the financial sector and an efficient public sector, including regulation
2. Broader economic participation and ensuring that more people benefit from economic growth through greater access to opportunities, including health, education, water, electricity, microfinance, agricultural support and inclusive reforms.
3. Reducing and preventing extreme poverty by developing social safety nets, investing in active labour market policies and guidelines, insurance, welfare schemes, child benefit and crisis management.

The Asian Development Bank has substantially strengthened and systematised its focus on results in recent years. Inclusive growth is measured by means of indicators in its results framework. For example, the bank monitors what proportion of its activities contributes to creating and ensuring access to employment and economic opportunities, and measures aimed at improving social protection. The framework also measures income disparities in the region.



Figure 7.3 President Jim Yong Kim of the World Bank, UN Secretary-General Ban Ki-Moon and IMF Managing Director Christine Lagarde have all promised to work for inclusive growth and poverty reduction. Cooperation between the UN and the financial institutions is high on Norway's agenda.

Photo: (both photos) UN Photo/Mark Garten.

All the multilateral development banks have their own strategies and programmes for ensuring equal rights for women and giving them an opportunity to contribute to and benefit from economic growth. Norway is a driving force in the banks' work on women's rights and gender equality. The African Development Bank needs to accelerate progress in its gender work, and Norway and the constituency is following up this issue closely in the replenishment negotiations.

All the banks lack an explicit taxation policy strategy. However, this does not mean that they are not working on the issue. For example, the Asian Development Bank is cooperating with the Philippines on taxes and measures to limit capital flight. The World Bank focuses on tax issues in its analytical work and provides advice to individual countries. The IMF is the institution that contributes most to capacity-building and advice on tax matters, however.

The IMF's main mandate is to promote stability and growth in the world economy through cooperation on macroeconomic policy. In recent years, distributive effects and social safety nets have become an important part of the organisation's analyses and advice. The IMF has been criticised for taking too narrow an approach and failing to address issues relating to distribution and poverty. In her speech at the IMF annual meeting in October 2012, Christine Lagarde, Managing Director of the IMF, emphasised the need for a "new kind of economic growth" that is not simply the fallout from unfettered globalisation. It must also be inclusive. Lagarde envisions a world with less inequality. The Government supports this approach.

In 2011, the IMF carried out a study of the effect of income distribution on the stability of economic growth, and found a positive correlation between low income inequality and the duration of periods of economic upturn.³ In 2011, the IMF's board decided to include income distribution and employment in their analyses to a greater extent than before. Distributive effects and social safety nets are included in the advice given and requirements set in connection with individual countries' programmes with the IMF. Countries that request financial assistance from the IMF must prepare a Poverty Reduction Strategy Paper (PRSP), outlining how they plan to combat poverty.

The statistics indicate that the IMF's increased focus on social conditions has had an effect on how countries in crisis prioritise. From 2002 to 2011, social spending in countries that receive IMF loans has increased on average, both as a percentage of overall public expenditure and of GDP.

What does Norway do?

Norway actively supports inclusive growth having a central place in the activities of the multilateral development banks and the IMF. The boards of the financial institutions work continuously on this issue, and it is also included in negotiations for the replenishment of the World Bank and the African Development Bank's funds for the poorest countries. For example, Norway plans to increase

³ Berg, A.G. and J. D. Ostry (2011), 'Inequality and Unsustainable Growth: Two sides of the Same Coin?' IMF Staff Discussion Note, April 8, 2011.

its contribution to these funds if the banks adopt a clearer distributive policy. Norwegian input in multilateral forums is adapted to the mandate of the individual institution.

In the current negotiations in the World Bank about results frameworks, Norway will argue for the inclusion of operational indicators of inclusive growth. In connection with the approval of lending to countries, we ensure that the banks have an explicit focus on poverty. We argue in favour of increasing the focus on gender equality. Taxation and illicit financial flows are also issues that we consistently raise.

Norway also supports individual measures, particularly in knowledge creation and the testing of new instruments, for example in relation to governance, anti-corruption work, women and gender equality, social safety nets, the environment and the finance sector. Norway has been working for many years to improve access to health services and education through the multilateral development banks. We also support these institutions' work on energy and natural resource management. More countries now want to cooperate with Norway on natural resource management, including the negotiation and renegotiation of contracts in the mining and petroleum industries.

The World Bank has drawn on Norwegian support in developing a number of analytical tools and strategies.⁴ Norway has for many years played a prominent role in relation to the issue of women's economic and social development, and this work has produced visible and concrete results in recent years. We will continue to follow up this agenda, also from a distribution perspective.

The World Bank is developing a new tool for assessing countries' taxation policies, among other things in order to identify the optimum level of taxes and transfers. Together with the other countries in our Nordic-Baltic constituency, Norway is a natural dialogue partner for the banks on tax-related matters, including the taxation of natural resources. Lessons can be learnt from our own social model, but it will be even more important to contribute to South-South learning and to the banks communicating best practice in discussions about distribution.

⁴ Political Economic Analyses, Public Expenditure and Financial Accountability Program, Poverty and Inequality Index, Poverty and Social Impact Analyses, Poverty Assessments, Gender Assessments, Governance and Anti-corruption strategy, Social Protection and Labor Strategy, and the IFC's Doing Business Report.

Box 7.2 Redistribution also in times of crisis

A study carried out by the IMF in 2012 concluded that it is appropriate for countries in crisis to continue to redistribute via public budgets even though fiscal policy is markedly tightened, at the same time as the countries implement measures aimed at improving economic efficiency.¹ Measures that are mentioned as relevant in order to succeed with this approach include reducing the possibilities for tax evasion and increasing needs-based transfers. The same report lists several measures aimed at reducing income disparities in developing countries: broad-based income and consumption taxes and fewer tax-deductible allowances from income, in combination with fewer subsidies, targeted schemes and a gradual expansion of social safety nets.

¹ Bastagli, F., D. Coady and S. Gupta (2012), "Income Inequality and Fiscal Policy," IMF Staff Discussion Note, September 27, 2012.

Together with the World Bank, Norway has contributed to the development of social safety nets in many countries, and this cooperation will continue. During the past decade, we have collaborated with the Bank on the social sector and the environment in particular in order to ensure that the Bank further develops its analytical tools and includes these aspects in relevant strategies and lending instruments. Inclusive growth was a research and pilot topic in this cooperation in 2012. We involve Norwegian institutions in our professional cooperation with the World Bank. Civil society organisations play an important role in monitoring and advocacy efforts in connection with the work of the international financial institutions.

In relation to the IMF, Norway, through the Nordic-Baltic Constituency, has pressed for greater focus on fair distribution and the social consequences of loan programmes. Norway has long advocated simplification of the terms and conditions – the conditionality – attached to the IMF's loan schemes. Previously, these requirements have been both extensive and detailed, including requirements relating to social conditions. In some cases, they have exceeded the IMF's area of expertise and failed to take ade-

quate account of the local context. This has limited the borrowing countries' ownership of the economic reforms that are to be implemented. The problem has been particularly evident in the IMF's lending to low-income countries. Based on the organisation's mandate and competence, the Government wishes to avoid the IMF's work in low-income countries being characterised by long-term development funding. Such activities should be the domain of the World Bank and the regional development banks.

Norway is concerned with ensuring that the IMF's work is grounded in professional assessments, not ideological considerations. We wish to share experience of our social model, which has resulted in sound growth, low unemployment rates and fair distribution.

The sum of our professional dialogue with the development banks and the IMF and our financial support for political priority areas makes a good starting point for raising development policy issues. These efforts sometimes coincide with our priorities in individual partner countries, while at other times they are an alternative arena with a great potential to influence developments.

7.2 The UN and fair distribution

The UN is a negotiating arena for achieving international agreement on the preconditions for and goals of development. The most important way in which the UN influences fair distribution is therefore through the role it plays in the development of international norms and standards.

The outcome document of the International Conference on Financing for Development in Monterrey in 2002 stated that each country is responsible for its own economic and social development. In the Monterrey Consensus and the subsequent Doha Declaration (2008), it was agreed that financial reforms are necessary to increase the mobilisation of domestic resources in order to reduce social inequality.

The Government will work to ensure that any future debate in the UN on Financing for Development will focus to an even greater extent on alternatives to aid, even though aid will continue to be important. The Government will therefore endeavour to ensure that these issues are high on the agenda at any future high-level meetings on Financing for Development. The Convention against Corruption, cf. Section 3.3, and the UN Committee of Experts on International Coopera-



Figure 7.4 The UNDP works in many areas. Here, a young boy is given medicine for tuberculosis.

Photo: UNDP South Sudan/Brian Sokol.

tion in Tax Matters, cf. Chapter 8, will also be important instruments in future efforts.

Norms, standards and guidelines for individual areas and sectors that are important in relation to fair distribution within countries are also developed under the auspices of the UN.

The UN's operational activities aimed at promoting inclusive growth

The various UN actors base their work at country level on international norms and standards. These norms and standards are binding on the member countries that adopt them. The most important thing is that the UN organisations contribute to capacity-building, so that countries can apply international norms, standards and guidelines when developing policies and systems to ensure inclusive growth.

The rights-based approach must mean that, within their respective mandates, the organisations must contribute to the development of national policies and systems that target the whole population. Based on an analysis of the situation in the individual country, the UN agencies must also help to ensure that women and disadvantaged groups, for example minorities, people with disabilities, children and young people, are not excluded. The job of the UN agencies therefore also includes helping countries to develop policies and measures targeting particular groups. Norway will work to ensure that these priorities are reflected in the strategic plans of the UN's specialised agencies, funds and programmes.

UNDP is a priority partner in the implementation of Norwegian development policy. The organisation is in a unique position in the UN system to

Box 7.3 Sexual and reproductive health

Sexual and Reproductive Health and Rights (SRHR) means people being able to have a safe and satisfactory sex life, and that they have the ability to reproduce and freedom to choose whether, when and how often to have children. Implicitly, this means that women, men and young people should have access to contraception and health services in the areas of sexually transmitted diseases, pregnancy and childbirth. In Norway's view, this also includes the right to safe abortion.

Many SRHR-related matters are highly controversial in the international context. Socially conservative forces use religious and cultural arguments to undermine the previous consensus in this area adopted by the 1994 International Conference on Population and Development in Cairo and the Fourth World Conference on Women held in Beijing in 1995. The Holy See plays a key role on the conservative side in close collaboration with conservative elements in the

USA, Europe, Latin America, the Middle East and Russia.

Sexual and reproductive rights are not just fundamental human rights, they are also crucial in relation to the promotion of women's rights and economic development for society as a whole. Access to sexual education and contraception makes it possible for young women to complete their education and participate in society – socially, politically and economically. Research also shows that family planning is one of the most cost-effective ways of reducing poverty and combating increasing inequality.

UNFPA has a key place in the work of promoting SRHR and has been mandated to lead the ongoing process of accelerating the implementation of and extending the action plan adopted at the UN's International Conference on Population and Development in Cairo beyond 2014.

contribute to inclusive growth and fair distribution in member states. Because of its leading role in the UN development system, UNDP can also help to ensure that the various UN agencies act in a coordinated and uniform manner in their efforts to promote fair distribution.

UNDP's approach is that social justice, inclusion and effective poverty reduction depend on a country's ability to deliver public goods and social services, market regulation for the common good and statutory access to economic goods and opportunities. UNDP provides expert assistance to the authorities to enable them to draw up and implement development strategies that focus, among other things, on inclusive growth, and to strengthen institutions and their capacity to govern and manage on the basis of human rights, democratic governance, transparency and civic participation.

In order to ensure progress towards achieving the MDGs, UNDP emphasises the need to address the growing income disparities and to develop measures to promote inclusive growth, productivity, employment and the redistribution of goods and income. UNDP is involved in many programmes in developing countries that support the development of policies aimed at increasing

employment and developing social welfare schemes.

UNDP helps countries to hold democratic elections and develop public institutions, and contributes to strengthening countries' judicial systems and people's access to them. The organisation works to promote increased transparency and democratic accountability as regards the use of public funds.

The Government will work to ensure that UNDP, in its next strategic plan (2014-2017), places greater emphasis on advisory services and capacity development to enable the authorities to formulate a coherent policy and development plans that focus on fair distribution, sustainable development and democratic governance.

Unicef, the United Nations Population Fund (UNFPA) and the United Nations Entity for Gender Equality and the Empowerment of Women (UN Women) also have important roles to play in the efforts to promote fair distribution. These organisations' work is based on children's rights, women's rights and people's right to sexual and reproductive health and family planning, respectively. They help countries to develop national policies and systems that ensure universal services and help to combat discrimination. The Govern-

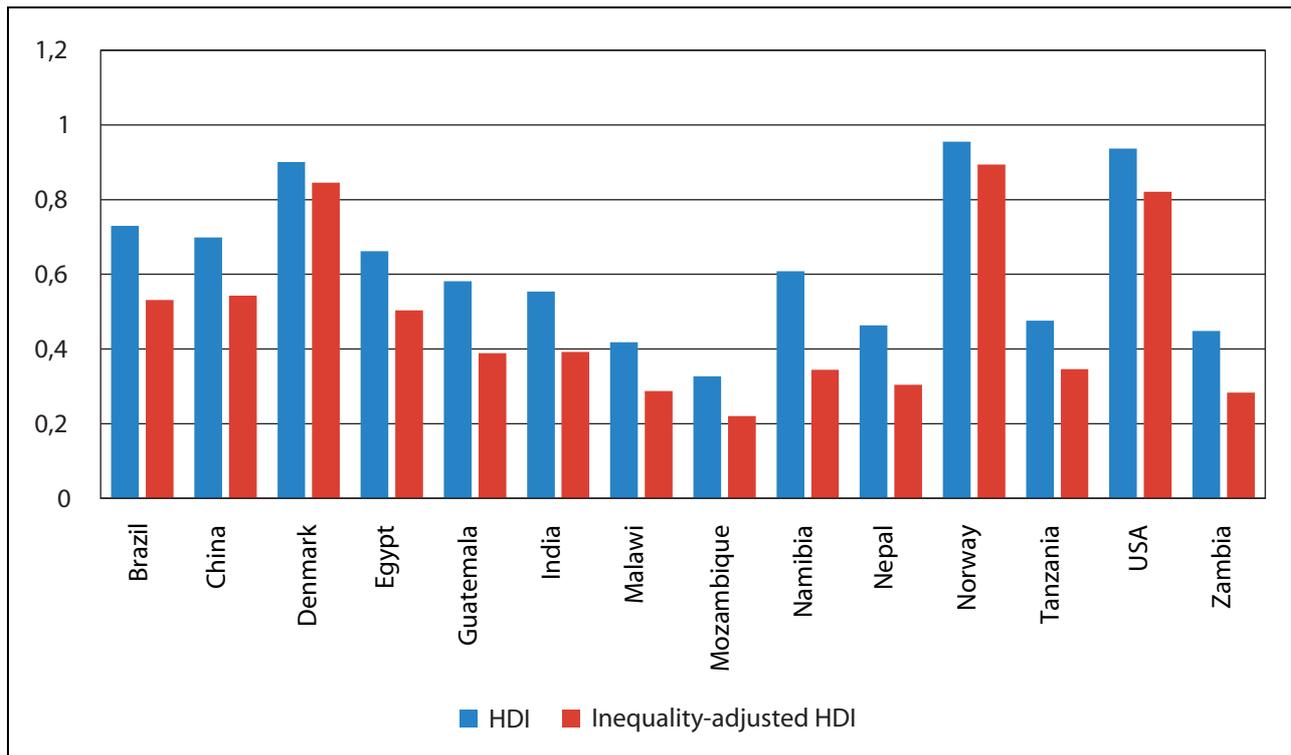


Figure 7.5 UNDP's Inequality-adjusted Human Development Index.

Source: Human Development Report 2013.

ment will work to ensure that this is clearly enshrined in these organisations' new strategic plans (2014-2017).

Unicef emphasises that expanding the provision of social services and social protection is not enough to reach the most vulnerable segments of the population. Targeted efforts are required to increase demand for these services. The Government will work to ensure that Unicef's next strategic plan emphasises the development of national policies and systems for service provision that target all children.

The multilateral forums are negotiating arenas where common positions must be negotiated between many countries with conflicting interests, and it can be demanding to win approval for Norway's policy. Our views can have a greater impact if we enter into alliances. Experience shows that it is easier to win support for a new policy if several countries unite behind each other's views. The Government will therefore take the initiative for more extensive and long-term cooperation with selected countries with a view to forming a "group of friends" to champion fair distribution in various international forums. Including low- and middle-income countries as well as donors will be emphasised. The most important arenas for cooperation

will be the World Bank, the regional development banks, the UN and the work on the Post-2015 Development Agenda. Norway shall be a driving force in the group of friends. The Government will allocate resources to implement this initiative.

The UN's role in the development and dissemination of knowledge

Several UN agencies publish annual reports that are part of the basis for debates on global development policy priorities as well as national policy development.

Through its annual Human Development Report (HDR) and Human Development Index, UNDP has, since 1990, contributed to highlighting how well the countries of the world are faring in three fundamental aspects of human development: life expectancy, education and standard of living. The ranking is adjusted for inequality, and thereby indicates the extent to which a country's development is affected by inequality.

UNDP's HDR for 2013 states that economic growth alone is not enough to secure progress in human development.⁵ The report highlights four policy areas that are important in relation to ensuring progress: enhancing equity, including

gender equality, a strengthening of democracy and citizen participation, greater resilience in relation to environmental pressures and policies to promote employment. When adjusted for income inequality, countries' Human Development Index scores drop by an average of 23%. Figures from the UN also show that countries with low inequality consistently demonstrate greater progress in achieving the MDGs than countries with higher inequality.⁶

Unicef publishes an annual *State of the World's Children* report, and UNFPA publishes a corresponding *State of World Population* report. Information about the size and composition of the population and data on living conditions are necessary if a country's authorities are to succeed in developing policies and plans to promote inclusive growth and fair distribution. The UN plays an important role by assisting countries in conducting censuses, developing statistical databases and making use of population data analyses in the development of national policy.

⁵ Human Development Report 2013 The Rise of the South: Human Progress in a Diverse World.

⁶ UN MDG Database, ReSAKSS.

The Government will:

- work for the integration of inclusive growth into the multilateral financial institutions' results frameworks, lending schemes and policy discussions with the authorities in developing countries
- promote inclusive green growth, with an emphasis on fair distribution, in the UN and the multilateral financial institutions
- invite selected countries to form a group of friends to champion fair distribution in the multilateral arenas
- systematically highlight taxation as a redistributive policy tool
- seek to ensure that the new strategic plans of UN organisations emphasise helping developing countries to draw up policies and systems that include the whole population
- seek to ensure that national responsibility for poverty reduction is a key theme for a possible new international conference on Financing for Development
- increase support for civil society actors, both in Norway and in developing countries, that are engaged in the development banks' and the IMF's work on fair distribution.

8 Illicit financial flows from developing countries

Globalisation creates new and closer links between countries and regions. Although national policy forms the basis for fair distribution and growth in individual countries, globalisation gives rise to new opportunities and challenges.

Foreign investments contribute to increased tax revenues, which enables the authorities to implement good distributive policies, and provide health and educational services as well as social safety nets. Corruption, tax evasion and other forms of economic crime exacerbate inequality and poverty and threaten democracy, however. Illicit financial flows from poor countries, as well as the use of tax havens and other international structures, means that huge amounts of money are siphoned off instead of being used for the common good.

8.1 The relationship between illicit financial flows and tax havens

Illicit financial flows are transboundary financial transactions involving money that has been earned, transferred or spent illegally. Calculations carried out by Global Financial Integrity on the basis of figures from the World Bank and the OECD show that the estimated illicit financial flows from developing countries amount to about ten times the total amount given in official development assistance.¹ According to these calculations, tax evasion by commercial companies accounts for the lion's

¹ Global Financial Integrity is a research and advocacy organisation that has documented illicit financial flows for many years. The figures for illicit financial flows are taken from its report from December 2012, *Illicit Financial Flows from Developing Countries: 2001-2010*.



Figure 8.1 Tax havens make it possible to conceal huge financial flows from public disclosure.

Photo: Ryan Morrison.

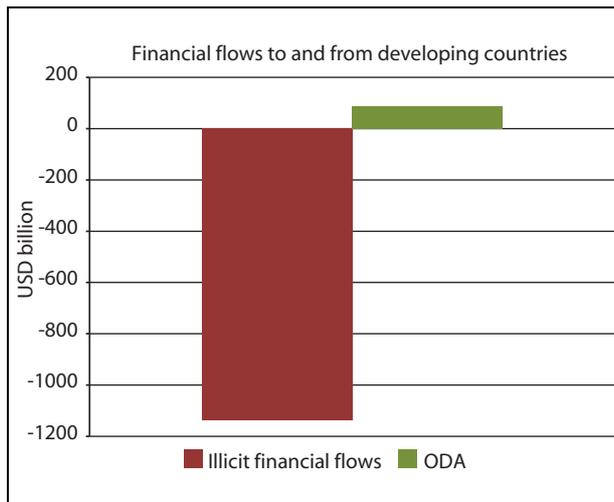


Figure 8.2 Illicit financial flows from developing countries compared with the amount of aid received by the same countries in 2010.

Source: Global Financial Integrity and the OECD.

share of the illicit financial flows from developing countries. Another important source is money that belongs to the state and the country's citizens, but that is stolen by corrupt politicians and civil servants. Large amounts also stem from activities of a criminal nature, such as financing of terrorism and trafficking in people, arms, endangered species, natural resources and drugs. This leads to enormous hidden financial flows, while the activities in themselves also cause great harm. Given the nature of these activities, it is impossible to determine the exact amounts that disappear illegally. There will always be uncertainty attached to such estimates. Since several factors, such as smuggling and trade in services, are not included in the estimate in Figure 8.2, it is reasonable to assume that it is a conservative estimate.

Attempts will often be made to transfer money obtained illicitly – whether it stems from corruption, crime or tax evasion – to somewhere it can be safely concealed and laundered. The main enabling factor is financial secrecy. This is made possible by a global financial structure that includes tax havens, secret trusts, shell companies and anonymous accounts.

Tax havens make corruption and economic crime more profitable and attractive by making it possible to conceal the proceeds of tax evasion and other criminal activities. They contribute to lower productivity in the private sector, because the system makes it profitable to invest a lot of

Box 8.1 Tax haven or secrecy jurisdiction?

Classic tax havens are often associated with small island states that offer low tax rates. However, at least as important is the fact that they also offer *secrecy*. The term “secrecy jurisdiction” is therefore more accurate than “tax haven”.

“Offshore Financial Centres” is another term that is used to describe them. “Offshore” can also give the impression that they are all island states, but the designation “offshore” alludes to the fact that the activities that make a country a closed jurisdiction do not comply with the regulations that apply to the rest of the country's economic activity.

A typical characteristic of such jurisdictions is that their own citizens who are engaged in business in the country usually have to pay taxes and publish their accounts. Foreigners, on the other hand, are offered highly advantageous tax conditions for capital and tax domicile for companies whose operations and actual management take place in other countries. They are typically not permitted to operate locally or to use the local currency, but they can form companies that will largely be exempt from the obligations to which domestic companies are subject.

“Secrecy jurisdiction” is not a widely used term, however, and this white paper therefore uses the term “tax haven” for the sake of simplicity.

effort in tax planning instead of in productive activities.

There is reason to believe extensive assets have accumulated in tax havens over the years. According to one estimate, more than NOK 190,000 billion could be concealed in such jurisdictions, and one third of this amount may come from elites in developing countries. This is twice as much as the sovereign debt of those same developing countries.²

² From the report *The Price of Offshore Revisited* from July 2012, written by James Henry, former chief economist with the consulting firm McKinsey, for the Tax Justice Network.

Tax Havens

There is no unambiguous definition of what a “tax haven” is. The OECD points to the following characteristics: 1) very low or no tax on capital income, 2) a special tax regime for shell companies, 3) a lack of transparency concerning ownership and/or lack of effective supervision, and 4) no effective exchange of information on tax matters with other countries and jurisdictions.³

Banks and financial institutions can function as closed structures. Together with services provided by auditors and lawyers, this creates ample opportunity for arranging expedient company registrations. While Norway and most other well-developed states that respect the rule of law pass legislation that largely regulates conditions in their own countries, about one third of the states in the world offer secrecy mechanisms, company structures, banks, mailbox addresses and registration by computer from another jurisdiction, all specially designed to hide income that stems from activities in *other* states. It is estimated that 50% of all international positions held by the world’s banks as deposits, loans and securities are held by banks in Offshore Financial Centres.⁴

By granting tax domicile to companies whose operations and actual management are in other countries, tax havens undermine other countries’ tax bases, in addition to facilitating transfers and safe-keeping of the proceeds of crime.

Multinational companies can also use tax havens, which offer services such as registration as holding companies and trusts, as conduit states. They can be used for investments in third countries without any actual activity taking place in the conduit state. Ingenious and intricate chains of companies that include several tax havens can make it virtually impossible to uncover illegal activity and find out who is behind it. Multinational companies can have hundreds of subsidiaries in different jurisdictions in which they have little or no activity. This is not illegal in itself, but, because transparency is so limited in tax havens, it makes it possible to conceal transactions that would not have taken place if they had to be carried out openly. The purpose of such hidden transactions can, for example, be tax evasion, the financing of terrorism, or concealing the proceeds of crime.

³ OECD, *Harmful Tax Competition: An Emerging Global Issue*, 1998.

⁴ IMF estimate, 2000.

Box 8.2 Where are the tax havens?

There is no universally agreed list of tax havens. The OECD’s Global Forum on Transparency and Exchange of Information for Tax Purposes is an international collaboration between 120 member countries, in which the measures taken by member countries to increase transparency and the exchange of tax information are assessed. The member countries, including Norway, are assessed on the basis of their compliance with the recommendations of the Global Forum. The process is scheduled to conclude in 2015, and the preliminary assessment will not define whether or not the individual member countries are tax havens. The list of countries that so far achieve a low score for implementation of the recommendations includes wealthy countries, developing countries and small island states considered by many to be “classic” tax havens.

A network of NGOs focusing on these issues, the Tax Justice Network, publishes its Financial Secrecy Index every two years. The network produces an index of harmful secrecy by looking at the degree of secrecy and the individual countries’ importance and size in relation to the world economy. Wealthy countries, developing countries and small island states are all among the countries at the top of this list.

The world’s ten biggest extraction companies have a total of more than 6,000 subsidiaries, one third of which are located in tax havens.

The structure of such a company is shown in Figure 8.3 to illustrate how complex a multinational corporation can be.

8.2 How tax havens operate

Mispricing of intra-group transactions is one way of using tax havens. Approximately 60% of world trade takes place within groups of companies, between parent companies and subsidiaries. The accounting rules that apply to transfer pricing follow from what is called the arm’s length principle, which means that transfer prices between group companies shall be set in the same way as if the transaction had taken place between two indepen-

dent parties. Both revenues and expenses have a bearing on the size of profits or losses. The smaller the profit, the less tax has to be paid. The total tax load can be minimised by transferring profits to a jurisdiction with low or no tax.

Manipulation of the prices of goods and services traded between entities within the same group of companies is rife. It is difficult for the tax authorities in developing countries, whose administrative capacity is often very limited, to prove that the prices stated are incorrect in relation to the real market prices. Moreover, it can be virtually impossible to obtain information from tax havens. One way of shifting profits is to sell goods from the company in the country of production at an artificially low price to a group company registered in a tax haven. The goods can then be sold on at market price. This method is illustrated in Figure 8.4.

Another effective way of transferring profits from the country of production to low-tax regimes is what is known as derivatives trading. Derivatives are often used to hedge a company's revenues and thereby reduce the risk associated with price fluctuations. Such price hedging as part of a company's risk management is perfectly legal. However, derivatives trading can also be misused to transfer profit from the country of production by deliberately making a loss on a derivatives trade. If the hedged price has been intentionally set lower than the market price, the country of

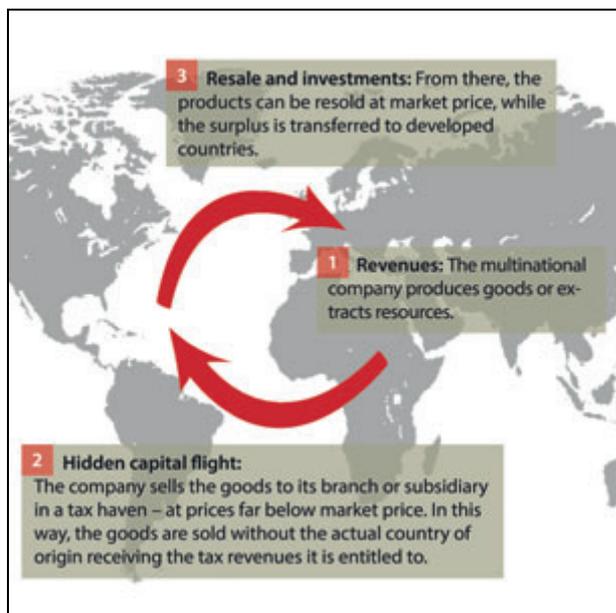


Figure 8.4 Shifting profits deprives the country of production of its fair share of taxes.

Kilde: Ny Tid magazine, United Nations Association of Norway/International Money Laundering Information Network (IMoLIN).

production can lose tax revenues because the company's income has been reduced compared to what it would otherwise have been as a result of entering into the derivatives contract. The group of companies, on the other hand, does not have to make a loss, since another group company can enter into contracts with the opposite effect in another country, for example in a tax haven. The group can thus transfer untaxed assets out of the country of production.

Documentation is usually voluntary in tax havens. Taking legal action to obtain access to information about bank accounts or companies can therefore be to no avail. Rules often apply that ensure that the customer is notified if an investigation is being prepared by the authorities in the customer's home country. Moving companies quickly from one tax haven to another makes it extremely difficult to get to the bottom of a case or to seize funds. In addition, there are many ways of concealing the identity of the people behind an account or a company. New companies can be formed quickly, often without banks or financial institution in any way investigating who the customer or beneficial owner is.

8.3 Transparency against secrecy

Norway is a leading country in the international efforts to improve control of international financial flows and to combat tax havens and illegal international financial transactions. Norwegian Official Report NOU 2009: 19 *Tax havens and development* helped to put the fight against illicit financial flows on the international agenda, and the report is used by many countries and multilateral organisations. The Commission's mandate was to look into the connection between tax havens and capital flight from developing countries. The Commission described the characteristics of various tax havens and their effect on developing countries, documented the extent of illicit financial flows and proposed a number of measures. Many of the Commission's proposals have been followed up in this white paper.

Ongoing work against secrecy

Through programmes such as Tax for Development and Oil for Development, Norway helps individual countries to develop more robust tax systems that can reduce the extent of illicit financial flows from these countries.

Box 8.3 Beer profits pouring out of Ghana

Transfer mispricing can result in no profit being left to tax in the country of production. One such example is the brewery company SABMiller's activities in Ghana. The company has eliminated profit by charging expenses to the company in Ghana. The company's trademark is registered in the Netherlands, which is a conduit country for investments. SABMiller has an advantageous tax agreement with the Dutch authorities. SABMiller in Ghana has to pay high royalties for use of the trademark. The company also has to pay a company registered in Switzerland management service fees. The price is high, and the profit is further reduced. Beer destined for South Africa is sold via Mauritius. This is a financially attractive arrangement because the tax rate there is 3%, compared with 25% in Ghana. In addition, a loan is taken out from the company in Mauritius. The loan must be repaid with interest, which further reduces the profit and thus the tax payable in Ghana.

The result of all this is that profits are eliminated and that SABMiller, one of the world's largest brewery groups with large production in Ghana, paid less income tax to the authorities than small local beer outlets. The group's management denies that anything illegal has taken place.

Source: From the report *Calling Time: why SABMiller should stop dodging taxes in Africa*, Action Aid, November 2010.

Norway is an active participant in the Global Forum on Transparency and Exchange of Information for Tax Purposes, which is one of the most important international financial transparency initiatives. The Global Forum has 120 member countries, including most tax havens. The Global Forum carries out a peer review of all affiliated countries in which their legislation and practice is compared with the OECD standard. The process is scheduled to conclude in 2014, and the evaluation will conclude by assigning countries to one of four categories: 1) *Compliant*; 2) *Largely compliant*; 3) *Partially compliant*; and 4) *Non-compliant*. The Global Forum only deems the first two categories to be acceptable.

Box 8.4 Hunting for hidden assets is demanding

The case of shipping magnate Anders Jahre's estate illustrates how difficult it is to find and repatriate hidden fortunes placed in tax havens, such as the British overseas territory of the Cayman Islands. For more than 20 years, the deceased's estate brought a number of legal actions in Norway and abroad to repatriate the assets. Many in-court settlements were entered into, and a total of approx. NOK 1 billion was paid to the estate. During the 20 years, the estate incurred legal fees of around NOK 600 million. The estate concluded its work in 2012, and more than NOK 400 million was transferred to the Norwegian tax creditors. The outcome was a success in the sense that the repatriated amount exceeded the costs of the process. The case was also important as a cautionary example. Such an extensive process can be very demanding for poor countries without international support.

Countries are evaluated in relation to three dimensions: i) the availability of reliable information (in particular bank, ownership, identity and accounting information); ii) the authorities' access to correct information about the tax-relevant circumstances of persons and companies; and iii) the existence of mechanisms for the effective exchange of tax-relevant information with other countries and relevant institutions.

The process in the Global Forum puts strong pressure on tax havens, as they wish to be classified as compliant. Many countries have therefore implemented significant reforms and become more transparent over the past two to three years. Among other things, many tax havens have entered into agreements for the exchange of tax information with many new states, including the Nordic countries. However, they have not been under any pressure to enter into such agreements with developing countries, despite the fact that many of the investments that take place via tax havens are in poor countries.

The developing countries that have joined the Global Forum have the same claim and right to enter into transparency agreements as other countries, but may have a greater need than industrialised countries for clear and satisfactory

Box 8.5 The work of the Commission on Capital Flight from Developing Countries

The Commission on Capital Flight from Developing Countries produced the report NOU 2009: 19 *Tax havens and development*. The Commission's mandate was to examine the function of tax havens in relation to capital flight from developing countries. The following are among the proposals that the Government has followed up:

- increase the efforts to strengthen and improve tax regimes and anti-corruption work in developing countries
- study whether country-by-country reporting can be required of Norwegian multinational companies
- appoint an interdepartmental working group to look into matters relating to tax havens and development
- the proposal for the establishment of an international convention on economic transparency (discussed in this white paper)
- prepare new guidelines for Norfund's investments via third countries
- the proposal to establish a national centre of expertise has been replaced by a special research programme for tax havens and capital flight.

standards from the forum. In the longer term, Norway will consider revised evaluation criteria for the forum in order to strengthen developing countries' access to tax-relevant information. There is a particular need to strengthen the mechanisms for the effective exchange of tax and company information between jurisdictions that function as third countries and the countries where investments actually take place.

The Financial Action Task Force (FATF) was established by the G7 in 1989 as a forum for combating money laundering. FATF has published 40 recommendations concerning measures against money laundering and the financing of terrorism, and these recommendations are the most recognised international standards in this field. Norway holds the presidency of FATF from July 2012 to July 2013.

The IMF makes extensive efforts to combat money laundering and the financing of terrorism.

These efforts include work on reforms, including the development of anti-money laundering legislation, training and support for implementation, and research. Norway is one of the largest financial contributors to the World Bank and UNODC's Stolen Asset Recovery Initiative (StAR). The purpose of StAR is to contribute to the repatriation of proceeds of corruption that have been removed from developing countries. The Government has also been an important driving force behind the establishment of Draining Development, a research programme that has produced 15 special studies of various aspects of illicit financial flows for the World Bank.

Through the OECD, Norway has taken the initiative for the Oslo Dialogue on Tax and Crime, one of the main objectives of which is to reduce criminal networks' access to financial systems by means of increased financial transparency and more effective criminal investigations.

Norway has now entered into bilateral agreements for the exchange of tax-related information with nearly all of the 44 countries that the OECD deems to be tax havens. The agreements do not allow for the automatic exchange of information, but ensure access to information upon request to the extent that information has been registered and is available. The agreements that have entered into force have given the Norwegian authorities access to information in many cases where they would otherwise not have been able to obtain information. The OECD also works actively to prevent countries' tax bases from being eroded as a result of multinational corporations shifting profits between different jurisdictions.⁵

The US Government has adopted the Foreign Account Tax Compliance Act (FATCA), which requires foreign financial institutions to report financial information about people and companies that are subject to tax in the USA directly to the US authorities. Pursuant to the US regulations, withholding tax at a rate of 30% will be levied on payments from the USA to financial institutions that choose not to comply with FATCA's reporting requirement. As part of the implementation of this Act, the USA has agreed with several countries, including Norway, to sign agreements that will provide legal authority for such measures. The Norwegian and US authorities have reached agreement on automatic reporting between the two countries' tax authorities concerning accounts in financial institutions. This agreement

⁵ OECD, Addressing Basic Erosion and Profit Shifting (BEPS), February 2013.

will ease the reporting obligations of Norwegian financial institutions.

Once the agreement for the implementation of FATCA has been signed by Norway and the USA, the financial institutions' reporting obligations will be eased in that they can submit information to the Norwegian authorities, which will then forward it to the appropriate US authority. The agreement means that no withholding tax will be levied on Norwegian institutions. For the Norwegian tax authorities, the agreement means that they will automatically receive information about all accounts held by Norwegian taxpayers in US financial institutions. The agreement is scheduled for signature in 2013. The agreement considerably strengthens transparency on financial matters. It also makes a substantial contribution to increasing the prevalence and international acceptance of agreements for the automatic exchange of information.

The USA has signed a Memorandum of Understanding on FATCA-related agreements with Switzerland and Japan. Under this model, Swiss financial institutions, for example, will be obliged to submit information about US taxpayers directly to the US tax authorities. For bank clients that refuse to accept the exchange of such information, the bank will submit information at an aggregate level without specifying it for named customers. Switzerland nevertheless undertakes to accept group requests from the USA on the basis of aggregate information received, which means that the US tax authorities could gain access to detailed information in such cases as well.

The Government has distributed a draft bill for consultation. It proposes a duty for lawyers and other third parties subject to professional secrecy to provide information to the tax authorities about money transfers, assets and other outstanding balances in client accounts.

However, the nature of the work of combating international structures that facilitate the concealment of illicit financial flows is such that it requires extensive international cooperation. The goal must be a set of international norms and binding agreements that ensure transparency.

In the future, the Government will place even greater emphasis on mobilising the resources of the multilateral systems in the fight against tax havens. Better coordination of all the different measures is required if these efforts are to result in global norms and binding international obligations. Civil society organisations and networks, such as Publish What You Pay and the Tax Justice

Network, play an important role in providing documentation and proposing possible measures. Norway will contribute further to the work of such agents of change.

Initiative for a possible convention on financial transparency

The Government will initiate an international dialogue on the development of stricter rules for financial transparency, for example in the form of a convention or agreement. This will be a long-term effort aimed at advancing the normative agenda for greater financial and economic transparency.

Through this dialogue, the Government will build a common understanding with like-minded countries and development partners about what such rules might entail. The aim is to prevent illicit financial flows. This may involve obligations to register and exchange information about cross-border financial transactions, and to provide mutual legal assistance in tracing financial flows in order to uncover criminal activities.

A convention or agreement could be a valuable supplement to ongoing work in multilateral forums. The extent to which the goal of stricter rules for financial transparency can be promoted within the framework of existing forums will also be considered. Progress in such forums is primarily based on consensus, however, and the processes can therefore lag behind negative developments in tax haven structures, concealment techniques and other illicit financial flows. Although there are a number of guidelines for how states should behave and cooperate, there are still not many legally binding rules in this area. A convention or agreement would thus break new ground.

The dialogue will therefore assess the need for, and structure of, a possible convention or agreement. It will seek to identify relevant forums for the development of rules, subsequent enforcement and impact, as well as strategic alliance partners. The precise obligations must be adapted to domestic legislation and obligations under other instruments, such as EU/EEA regulations. Objections of a procedural nature, including that a convention or agreement could entail expenses for states and financial institutions by imposing new reporting obligations on them, must be considered.

Experience from other processes, for example the development of the conventions on anti-personnel mines and cluster munitions, suggests that the content of a convention or agreement will

Box 8.6 High-Level Panel on Illicit Financial Flows from Africa

A high-level panel chaired by Thabo Mbeki, former president of South Africa, was established in spring 2011 by the United Nations Economic Commission for Africa (UNECA) and the African Union (AU). The purpose of the panel is to:

- determine the nature, pattern, scope and channels of illicit financial outflows from Africa
- sensitise African governments, citizens, policy makers, and development partners to the problem
- mobilise support for putting in place rules, regulations, and policies to curb illicit financial outflows and influence national, regional and international policies and programmes on addressing the problem of illicit financial outflows from Africa.

Norway contributed to the establishment of the panel and is the only non-African country to be represented on it.

The high-level panel's report is scheduled to be delivered in late 2013. Its meetings are held in different regions of Africa in order to ensure maximum awareness of the issue among the authorities, civil society, the private sector and academia. The panel will submit its recommendations to the AU and act as a mouthpiece for Africa in the international arena.

be considerably changed during a negotiation process. It is desirable to unite the large group of countries that wish to see more rapid progress in transparency efforts. It is unlikely that tax havens will initially be interested in joining. However, the work could contribute to highlighting the unfortunate activities that take place in these jurisdictions.

If it gains support, a convention or agreement could be an important instrument in the fight against international crime on many levels. It could be of interest to a broad range of actors, including in the fields of law enforcement, anti-terrorism and the financing of terrorism, drug trafficking, human trafficking, illegal arms trade, illegal trade in minerals, as well as money laundering and tax fraud.

The added value of a convention or agreement would be that it is legally binding. This will be particularly important to developing countries, many of which are not covered by legally binding instruments and have a weak bargaining position when it comes to agreeing on satisfactory bilateral solutions.

The Government will initiate an international dialogue on the development of stricter rules for financial transparency, for example in the form of a convention or agreement. Such a process will be time-consuming, and it will initially take place outside the established forums. The Ministry of Foreign Affairs is responsible for this work on Norway's part. The extent to which the issue of a convention or agreement for financial transparency should be raised in multilateral forums will have to be clarified as the process moves forward, and it will depend on whether there is sufficient international interest.

EITI

Today, the best instrument for ensuring greater transparency between companies that extract natural resources and national authorities is the Extractive Industries Transparency Initiative, known as EITI. EITI partner countries are obliged to make public the tax revenues they receive from companies in the oil, gas and mining industries, thereby contributing to transparency between extraction companies and the authorities. The users are society at large. Joining the initiative is voluntary.

So far, Norway is the only OECD country to be implementing EITI partner country. EITI is currently carrying out a process to strengthen and expand its rules. This is an important process, as long as it strikes a balance with companies' legitimate need to protect commercially sensitive information and the administrative burden that reporting imposes on the parties.

Country-by-country reporting (CCR)

CCR means that companies are obliged to provide information about their activities to each of the jurisdictions they are active in, either directly or via dependent companies. There are no separate Norwegian rules or EU legislation currently in force that require companies to report operational information in individual countries, nor any requirements to disclose payment flows to the authorities in countries where the companies operate. The Government's Action Plan for Com-

bating Economic Crime states that the Government supports the introduction of common EU rules in this area. While the Government believes it will be sensible to wait and see how things develop in the EU, the action plan does not rule out the possibility of considering whether there is a basis for introducing such rules in Norway on an independent basis.

The EU Commission submitted a proposal for CCR provisions in 2011. According to the proposal, large companies, and all extraction and forestry companies listed on the stock exchange, will have to prepare a special annual report on payments made to the authorities in each country in which the companies operate, as well as about whether the payments relate to individual projects. The purpose of this regulation is, among other things, to make the authorities in the countries where these enterprises operate accountable for the use of revenues from natural resources and to promote good governance. According to the proposal, national rules implementing the provisions of the directive shall enter into force no later than on 1 July 2014. In spring 2013, the EU Commission's proposal is under consideration by the Council of the European Union and the European Parliament.

The Ministry of Finance distributed the Commission's proposed CCR regulations for consultation in 2011. The consultation bodies were generally positive in their attitude to the proposal for CCR regulations, but they were divided as regards the detailed contents of the provisions, and whether Norway should speed up implementation compared with the introduction of such rules in the EU. Based on the opinions submitted in the consultation, Norway has supported the EU Commission's work to formulate CCR requirements, but, at the same time, argued that the proposal under consideration by the Council of the European Union and the European Parliament should be strengthened in some areas, for example by making it more difficult to evade the rules and ensuring that CCR can make a greater contribution to combating tax evasion.

The Government has set itself the goal of ensuring that Norwegian CCR rules will enter into force from 1 January 2014, even if the EU rules are not introduced until a later date. The Ministry of Finance appointed a working group in December 2012 to look into the introduction of CCR requirements in Norwegian legislation. The working group will submit its report and a proposal for Norwegian CCR rules by 1 May 2013.

Transparency guarantee

The Government will promote an initiative for the development of a transparency guarantee to be used by the authorities in developing countries. This guarantee should ensure that the authorities in developing countries have sufficient access to information from extraction companies. The transparency guarantee will be promoted through relevant development programmes.

Professional secrecy and tax havens are used to restrict the authorities' access to documents. The purpose of a transparency guarantee is to ensure that documents that are relevant to a developing country's authorities are made available as case documents, and that any dispute concerns the interpretation of the documentation, not obtaining access to it. A transparency guarantee should ensure that the authorities gain access to documents from companies abroad in connection with transactions that span multiple companies in the same group. It should contribute to transparency between the individual extraction companies and the authorities to which the company reports – primarily, but not limited to, the tax authorities.

At present, the tax authorities' right of access largely stops at transactions relating to a company's activities outside the country. In developing a transparency guarantee, the aim is that the tax authorities should be able to gain access to the relevant documentation from a series of transactions within a business group, called an audit trail. For example, for minerals that are sold, this means that the tax authorities, on request, can follow the sale from the country of extraction via subsidiaries in several countries, including tax havens, to the first recipient outside the group of companies. Important issues that need to be addressed when developing the transparency guarantee include how far the companies' duty of disclosure and risk of sanctions extend.

A transparency guarantee should ensure that goods can be traced all the way until they are sold on the open market. This will give the tax authorities a basis for assessing whether the income that the company declares in its tax return is correct. The same will apply to the audit trail for a deductible expense.

Violation of the transparency guarantee should lead to sanctions if a company has access to the information requested. The sanctions must be proportional to the breach, and it must be possible to subject them to judicial review. It is possible that, in extreme cases, a breach of the transparency guarantee could result in an extraction

Box 8.7 Task Force on Financial Integrity and Economic Development

In 2007, Norway and other interested countries and NGOs took an international initiative to establish a forum that subsequently developed into the Task Force on Financial Integrity and Economic Development.¹ The Task Force is led by leading civil society actors and academics, and it does not necessarily represent the opinions of Norway or other member countries.

Countries that join the initiative give their general support to financial transparency and integrity for the benefit of economic development in general and developing countries in particular. The initiative focuses on research, campaigns, the media, providing advice to individual countries and lobbying the G20 and multilateral organisations. The five main goals are: 1) curtailment of mispricing in trade imports and exports; 2) country-by-country accounting of sales, profits, and taxes paid by multinational corporations; 3) transparency of beneficial ownership of corporations and trusts; 4) automatic cross-border exchange of tax information on personal and business accounts; and 5) harmonization of predicate offenses under anti-money laundering laws.

¹ Since the initial publication of this white paper, the Task Force has changed its name to the Financial Transparency Coalition.

licence being revoked. The sanctions must be reasonable, however, and they must be predictable and verifiable for the companies concerned. A transparency guarantee should apply to all companies equally. It is up to each individual country whether to implement the guarantee through a model agreement or by law. The purpose of the transparency guarantee will be undermined if it becomes a matter for negotiation between the authorities and individual companies, with the result that different transparency requirements apply to different companies.

In many developing countries, the companies with the poorest transparency standards have a competitive advantage. The goal of developing a transparency guarantee is that it shall contribute to forcing companies to comply with a common

standard and result in fairer competition, better tenders and less room for corruption.

Upgrading of the UN Committee of Experts on International Cooperation in Tax Matters

There is currently no intergovernmental UN agency for tax matters. Instead, there is a group of 25 members who participate in their capacity as experts on tax matters,⁶ not on behalf of their country of origin. The Norwegian member is from the Ministry of Finance.

The OECD is still the leading organisation internationally on tax matters. At the same time, the work on Financing for Development has increasingly emphasised mobilising developing countries' own resources. This development requires consideration of the UN's role in this field.

Many countries want to upgrade the UN Committee of Experts on International Cooperation in Tax Matters to an intergovernmental body. The matter has been on the agenda of meetings in the United Nations Economic and Social Council (ECOSOC) at the proposal of the G77. The Government supports this.

Open Government Partnership

The Open Government Partnership (OGP), initiated by US President Barack Obama, was launched at the UN in 2011. The OGP is intended to promote accountability, transparency and empowerment as the basis for strengthening civil society, democracy, the rule of law and the facilitation of economic and social development. Participating states are encouraged to practice transparency about public budgets, anti-corruption measures, freedom of information measures and facilitation of civil participation, including safeguarding civil and political rights. The use of new technology and social media to promote democracy, participation and the accountability of public authorities is important.

Norway's OGP Action Plan contains measures to improve transparency in public administration, increase women's participation in politics and public life, and increase transparency about resource management, the Norwegian Government Pension Fund Global, and tax matters.

Every year, the Government publishes information about all aid projects it has funded on

⁶ The Committee of Experts on International Cooperation in Tax Matters.

Norad's website, in both Norwegian and English. Those who wish can download detailed overviews containing information about individual projects. The information is reported to the OECD's Development Assistance Committee (OECD-DAC), which also publishes the information on its website.

As part of our OGP commitments, the Government will further increase transparency in the administration of aid. During 2013, the Government will report to the International Aid Transparency Initiative (IATI). This is a new transparency initiative that is intended to ensure that information about aid-funded projects is quickly made public. The Government will also launch a new portal to provide a continually updated overview of Norwegian aid funding.

Improving expertise in developing countries

Most of the work on combating illicit financial flows is based in Western countries. The Government wishes to facilitate increased involvement by developing countries in this work. It will therefore take an initiative for the establishment of a network of authorities, NGOs and scientists. The purpose will be to increase the dissemination of knowledge about the harmful effects of illicit financial flows, and to propose solutions that are adapted to conditions in individual developing countries. The research and documentation communicated must be of high quality. The network must involve relevant actors in different developing countries.

Debt relief: More accountability – on both sides

The World Bank and the IMF have joined forces on two important debt relief initiatives:

- the Heavily Indebted Poor Countries/HIPC Initiative, introduced in 1996
- the Multilateral Debt Relief Initiative (MDRI), introduced in 2005

These initiatives have ensured that 34 of the 39 poorest and most heavily indebted countries now have manageable debt burdens. The reduced debt burden appears to result in increased investment in poverty-reducing measures, thereby making it an important factor in the efforts to promote more fair distribution and reduce poverty.

Norway is at the forefront of the efforts to provide debt relief for the poorest countries through active bilateral debt relief, through being a strong supporter of multilateral debt relief schemes, and

through debt policy innovations. The Government has a separate Plan of Action on Debt Relief for Development.

For developing countries that are eligible for debt relief, the size of the debt in relation to the country's GDP and annual export revenue will determine how much of debt is cancelled. The Government believes that non-economic variables should also be discussed, for example how the debt was incurred and the terms of the loan. Debt relief is not only about how much debt a country can handle, but also about justice.

Contingent on the Storting's approval, the Government has decided to cancel all of Myanmar's debts to Norway. Norway's claims against Myanmar amount to approx. NOK 3.2 billion. This debt relief was announced following the Paris Club's negotiations with Myanmar in January 2013. Norway played a crucial part in ensuring that an agreement was reached with Myanmar, with a satisfactory result for the Myanmar government. The member countries of the Paris Club will cancel half the debt and restructure the remaining half. In cancelling all Myanmar's debt, Norway is going further than the other members of the Paris Club.

The Government is concerned with preventing poor countries from accumulating new unmanageable debts. In the wake of international debt operations, it is imperative that both the creditor and the debtor act responsibly. Irresponsible lending today could result in what some refer to as illegitimate debts in future.

The concept of illegitimate debt is controversial. Too strict criteria could reduce access to much needed capital for developing countries and be an obstacle to their right to self-determination. Norway emphasises a combination of normative long-term work and an active policy of leading by example. An example of the latter is the Government's unconditional cancellation in 2007 of debts stemming from the Norwegian Ship Export Campaign (1976-80). This has attracted considerable international attention.

The Government's proposal to cancel Myanmar's debts means that cancellation will take place without burdening the aid budget, without other allocations being made and without ODA reporting. Nor are there any conditions attached to the cancellation. This is because the claims stemmed exclusively from the Ship Export Campaign.

In 2012, a Norwegian-funded UN project under the auspices of UNCTAD launched principles for responsible sovereign borrowing and lending. These principles are intended to make both lenders

and borrowers more responsible, and thereby reduce the risk of sovereign debt crises.

Norway will carry out a debt audit in order to highlight responsible lending and illegitimate debt. The criteria used in this audit will include both the current requirements for furnishing loans and guarantees and the UN Principles for Responsible Sovereign Lending and Borrowing launched in 2012. The audit covers claims totaling NOK 961.7 million divided between seven countries and 34 contracts. The work will be carried out on the basis of an international competitive tender procedure, and is scheduled for completion in 2013.

The Government will:

- work for more strategic coordination of the various international initiatives to combat tax havens and financial secrecy
- initiate an international dialogue on the development of stricter rules for financial transparency, for example in the form of a convention or agreement. This will be part of a long-term effort to push forward the normative agenda for greater financial and economic transparency.
- support individual countries in establishing more robust tax systems with a view to preventing illicit financial flows out of the country
- increase its support for NGOs and other bodies that are engaged in advocacy against illicit financial flows and tax havens
- promote the establishment of a South-based network to combat illicit financial flows
- strengthen and expand the Extractive Industries Transparency Initiative (EITI) rules
- aim to bring into force legislation on country-by-country reporting as of 1 January 2014, even if such rules do not come into force in the EU until a later date
- promote an initiative to develop a transparency guarantee that can be used by the authorities in developing countries to ensure that they have access to the information they need from extractive companies
- establish a system for reporting Norwegian aid to the International Aid Transparency Initiative (IATI)
- launch a portal to provide a continually updated overview of Norwegian aid funding
- support the proposed upgrade of the UN Committee of Experts on International Cooperation in Tax Matters to an intergovernmental body
- raise the question of compliance with the United Nations Conference on Trade and Development (UNCTAD) guidelines for responsible sovereign lending and borrowing with all the creditor countries that take part in multilateral debt operations.

The Ministry of Foreign Affairs

r e c o m m e n d s :

That the recommendation from the Ministry of Foreign Affairs of 5 April 2013 concerning Sharing for Prosperity – Promoting democracy, fair distribution and growth in development policy should be submitted to the Storting.

Appendix 1**Abbreviations**

CCR	Country-by-country reporting
CELAC	Community of Latin American and Caribbean States
CICA	Council of Christian Churches in Angola
DAC	Development Assistance Committee
ECLAC	Economic Commission for Latin America and the Caribbean
EITI	Extractive Industries Transparency Initiative
Energy+	International Energy and Climate Initiative
FAO	Food and Agriculture Organization of the United Nations
FATCA	Foreign Account Tax Compliance Act
FATF	Financial Action Task Force
FFA	Norwegian National Advisory Group against Organised IUU Fishing
GDP	Gross domestic product
GNI	Gross national income
GPE	Global Partnership for Education
GRID-Arendal	Global Resource Information Database-Arendal
HDI	Human Development Index
HSE	Health, safety and the environment
IATI	International Aid Transparency Initiative
IDB	Inter-American Development Bank
IEA	International Energy Agency
IFC	International Finance Corporation
ILO	International Labour Organization
IMF	International Monetary Fund
Interpol	International Criminal Police Organization
Kripos	Norwegian National Criminal Investigation Service
LO	Confederation of Norwegian Trade Unions
MCTU	Malawi Congress of Trade Unions
MDGs	Millennium Development Goals
NHO	Confederation of Norwegian Business and Industry
NOK	Norwegian kroner

Norfund	Norwegian Investment Fund for Developing Countries
OECD	Organisation for Economic Co-operation and Development
OfD	Oil for Development
OGP	Open Government Partnership
PETS	Public Expenditure Tracking Systems
REDD+	Reducing Emissions from Deforestation and Forest Degradation
RIO+20	United Nations Conference on Sustainable Development
SDGs	Sustainable Development Goals
SE4ALL	Sustainable Energy for All
StAR	Stolen Asset Recovery Initiative
TfD	Tax for Development
UN Women	United Nations Entity for Gender Equality and the Empowerment of Women
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNFPA	United Nations Population Fund
Unicef	United Nations Children's Fund
UNODC	United Nations Office on Drugs and Crime
WDR	World Development Report
WEF	World Economic Forum
WHO	World Health Organization
WTO	World Trade Organization

Published by:
Norwegian Ministry of Foreign Affairs

Internet address:
www.government.no

Cover illustration:
Paul Smith/Panos/Felix Features

Printed by:
07 Oslo AS 07/2013

