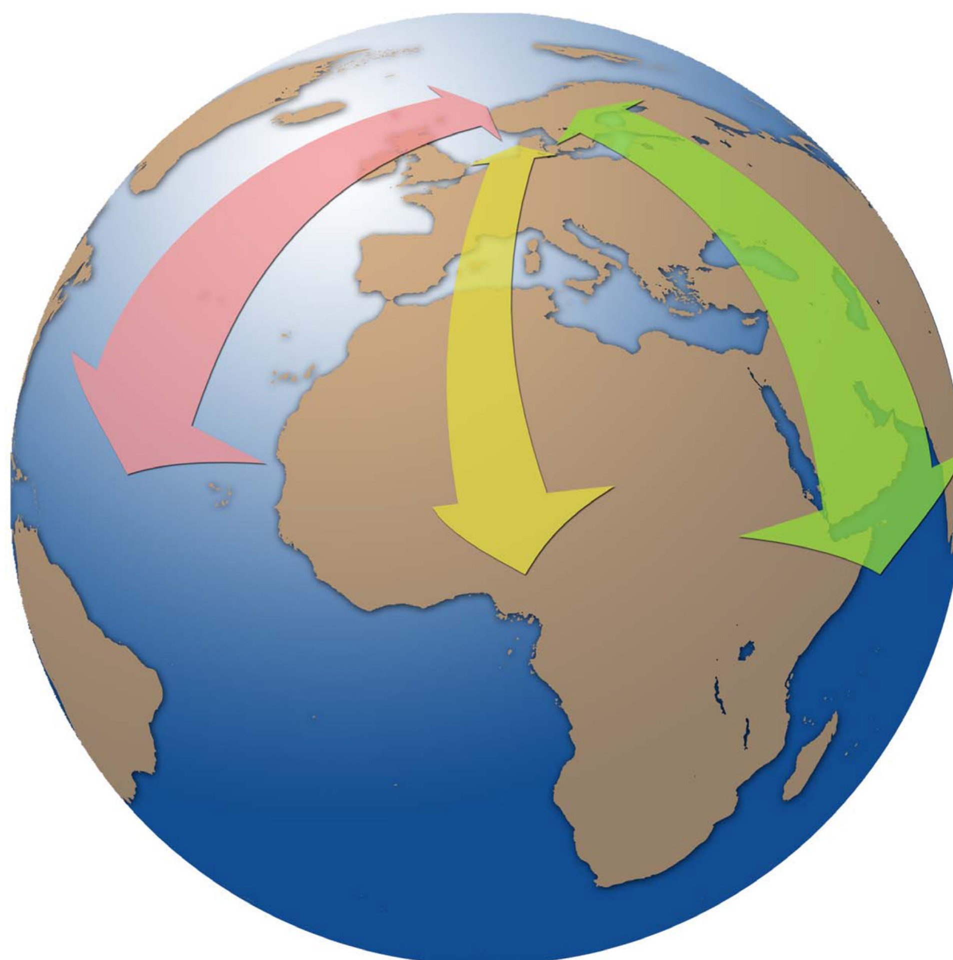
NORWEGIAN MINISTRY
OF FOREIGN AFFAIRS

Chapter 11 from the 2013 Budget Proposal from the Ministry of Foreign Affairs

Energy and Development

Report on Policy Coherence for Development 2012



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Contents

1. Introduction 5
2. Summary 7
3. Norwegian energy investments in developing countries 13
4. Energy-related challenges in developing countries 16
   - 4.1 The energy situation in developing countries 16
   - 4.2 Energy and private sector development 17
   - 4.3 Energy and climate change 17
   - 4.4 Conflicts relating to the use of energy resources 19
5. Ensuring that investments benefit The Poor in Developing Countries 21
   - 5.1 Good governance 21
   - 5.2 Preventing illicit financial flows and loss of tax revenues 22
   - 5.3 Decent work 22
   - 5.4 Investment, social development and the Norwegian model of labour relations 23
6. An Investment policy for social development 25
   - 6.1 Project financing and risk management 25
   - 6.2 Taxation and offshore financial centres/tax havens 26
   - 6.3 Financial irregularities 28
   - 6.4 Corporate social responsibility 29
   - 6.5 State ownership 33
   - 6.6 The Government Pension Fund Global 34
   - 6.7 Aid-funded incentives and initiatives in the energy sector 36
7. Case Study – Angola 38

Energy and development

Report on policy coherence for development 2012

1. INTRODUCTION

The purpose of the Government's annual reports to the Storting on policy coherence for development is to identify how Norwegian policy is promoting or hampering poverty reduction in developing countries.

The 2011 report gave a broad overview, and discussed the effects of Norwegian policies on six key issues of great significance for poverty reduction.

The focus of the 2012 report is narrower. It looks at how the Government promotes Norwegian goals for economic and social development in developing countries through regulation of and guidelines for Norwegian multinational companies – in other words, coherence between Norway's business and development policies.

We have chosen to take a particularly close look at investments in the energy sector because energy supplies and the promotion of renewable energy sources are a high priority area of Norwegian foreign and development policy and because this is a sector in which Norway and Norwegian companies have considerable expertise.

The Norwegian energy sector includes both the oil and gas industry and the hydropower industry, two very different industries that also differ in their environmental impacts and effects on the economy and energy supplies. However both industries contribute to energy security at the national and global levels.

In most countries, energy development and energy supplies are regarded as strategic sectors. Policy priorities and decisions provide the overall framework for these sectors, whether through state ownership or through legislation and guidelines. In Norway, political decisions, policy documents and legislation, together with the institutional framework, form an important part of the operating environment for companies in the energy sector. These are the factors that are most relevant for the extent to which Norwegian companies play a role in enabling developing countries to extract and use their oil and gas resources and build up their energy production capacity in ways that also promote environmentally sound economic and social development. Development policy and aid play a significant part in determining where Norwegian companies establish themselves abroad, and are therefore also discussed in this part of the report.

The need for further climate change mitigation and adaptation measures globally is also discussed. However, the main purpose of this report is to examine how Norwegian policy promotes investments in the energy sector in developing countries and how such investments contribute to economic and social development. Climate change and the consequences of Norwegian climate policy for poverty and energy supplies are therefore only discussed briefly.

Ideally, all Norwegian policies and politically initiated activities should promote sustainable social development in developing countries. To do this, activities must directly or indirectly contribute to value creation (including industrial development), environmental sustainability, gender equality, permanent jobs, decent pay and revenues to the state, which in turn can be

used to pay for education, health services and other social services.

Political priorities and the general framework in host countries must also be appropriate for Norwegian policies to have positive effects of this kind. Norway has only limited influence here, but can offer information, dialogue and assistance.

This means that Norwegian policy must be designed to encourage Norwegian companies to invest in developing countries and ensure that they follow international rules and comply with their own, and national and international industry standards for corporate social responsibility. This report examines whether this is in fact the case, and tries to give a picture of the types of challenges host countries need to deal with.

2. SUMMARY

Investments in the energy sector

According to a report[1] from the consultancy firm Menon, in 2008 foreign direct investment by oil and gas companies under Norwegian ownership totalled NOK 180 billion, of which NOK 56 billion was in developing countries, and generated considerable tax revenues for the host countries. Investments by the supplier industry totalled NOK 62 billion. According to the report, the supplier industry recorded no investments in developing countries, but NOK 5 billion in offshore financial centres/tax havens. Given the industry's engagement in Nigeria, Angola and other developing countries, this may indicate that one of the reasons the supplier industry is using offshore financial centres/tax havens is to manage risk when operating in developing countries.

- The renewable energy industry also makes substantial investments in developing countries. Much of this investment has involved some funding over the aid budget through Norfund (the Norwegian Investment Fund for Developing Countries), SN Power and its subsidiary Agua Imara. Together, these posted investments of more than NOK 6 billion in 2011 in the renewable energy sector.
- The development of electricity production is an important factor for business development at national level. Today, developers such as SN Power also focus on promoting local development, for example through microfinance, electrification of local communities, water resource management and health measures. The Bugoye power plant in Uganda is one project that shows that it is possible to carry out developments with a minimum of conflict and with a range of positive effects for the local community.
- Both the Norwegian Government and a number of Norwegian companies are involved in the transfer of resources and technology to developing countries and are helping to reduce greenhouse gas emissions and promote sustainable development in such countries through purchases of emission reduction credits.

These investments are already having substantial development effects in the form of revenues and transfer of expertise, and there is considerable further potential.

Civil society organisations and other actors have asserted that the assets of the Government Pension Fund Global (GPFG) should benefit developing countries to a greater extent, and that a certain proportion of its assets should therefore be allocated to investment in these countries. However, the Government does not consider the Fund to be a development or foreign policy instrument. The Fund may invest in companies that in their turn invest in the energy sector in developing countries, but only on the basis of its normal criteria for risk and return.

Illicit financial flows, embezzlement and corruption

The Government is strongly committed to preventing illicit financial flows across national borders, which are often linked to foreign investment by multinational corporations. Within the OECD, Norway is involved in efforts to increase transparency and reduce illicit use of tax havens through the Global Forum on Transparency and Exchange of Information for Tax Purposes and the Task Force on Financial Integrity and Economic Development.

- The dialogue project Capital for Development has been used to put forward Norway's views on the responsible use of offshore financial centres/tax havens and the fight against illicit financial flows.

[1] Report no 9/2010 (Norwegian only)

- The Extractive Industries Transparency Initiative (EITI) and the Publish What You Pay campaign are both seeking to increase transparency as regards revenues from extractive industries and how tax revenues are used. EITI's headquarters are in Norway, Norway is EITI-compliant, and Norway and a number of Norwegian companies are part of the EITI coalition.
- In accordance with the UN Convention against Corruption, the OECD Anti-Bribery Convention and the Council of Europe Criminal Law Convention on Corruption, Norway has included provisions in the penal code making it illegal for Norwegian companies to be involved in corruption, whether in Norway or abroad. Responsibility lies with the companies and their management in Norway.
- Norwegian companies have from time to time been involved in corruption. Nevertheless, in Transparency International's Corruption Perceptions Index for 2012, Norway is ranked as the seventh least corrupt of the 176 countries included.
- The purpose of the Tax for Development programme is to encourage the development of tax systems in developing countries with fewer arbitrary tax exemptions and advantages for individual companies, so that tax revenues increase and the system is more predictable. Other important elements of the programme are providing information for civil society and promoting international cooperation in this field.

Risk management and offshore financial centres/tax havens

Offshore financial centres/tax havens are widely used in risk management by multinational concerns. Norfund has been authorised to make limited use of offshore financial centres/tax havens to manage project risk for its investments. This has been done to ensure that Norfund has opportunities for cooperation with other investors. However, Norfund is currently required to refrain from using financial centres outside the OECD with which Norway does not have taxation or information exchange agreements.

Decent work

Decent work is an important element of the Government's dialogue with the business sector on corporate social responsibility in developing countries. The Government also supports the work of the International Labour Organization (ILO), which is seeking universal recognition of fundamental principles and labour rights as the basis for employer–employee relationships in all countries. These principles are the starting point for efforts to encourage Norwegian multinationals to strengthen their CSR performance. Interdisciplinary cooperation at national level is encouraged and supported, as well as cooperation between international actors such as the ILO, IMF, World Bank and OECD.

Aid as an incentive

One element of the Government's policy for promoting commercial investments in developing countries is to make use of aid as an incentive. Norad has for some time had grant schemes that function in this way. The establishment of Norfund is another example of the use of aid in this context.

Fragile states generally have considerable unmet energy needs and dilapidated or damaged energy infrastructure. Norway has provided aid so that Norwegian companies can take part in reconstruction and development in both Liberia and South Sudan, with special priority being given to towns. Without aid funding, it is unlikely that these investments would have been made.

Norway's Energy+ initiative is continuing the development of a performance-based approach

to financing in the energy sector. Private and commercial investments are to be encouraged, and restructuring of energy policy is to be stimulated with a view to achieving the two-degree target (the target of limiting the average rise in global mean temperature to no more than 2°C above the pre-industrial level).

Norwegian tax rules

Companies that are registered in Norway must pay tax here, and this includes tax on their foreign investments. To avoid double taxation, companies that also pay tax to host countries where they operate may deduct these expenses from the tax imposed by the Norwegian authorities.

The tax rules for income from petroleum extraction abroad are being reviewed, and a proposal to exempt such income from taxation in Norway has now been adopted by the Storting (the Norwegian Parliament).

The Commitment to Development Index judges Norway's taxation policy to be favourable for investments in developing countries.

Corporate social responsibility, standards and reporting

The commission that drew up the Official Norwegian Report *Coherent for development?* (NOU 2008:14) recommended the introduction of a statutory standard for reporting by Norwegian multinational enterprises on social and environmental indicators, and proposed the Global Reporting Initiative (GRI) standard as an appropriate framework for such reports.

- Norwegian companies are becoming increasingly aware that the way they deal with CSR issues affects their reputation. At present, private sector companies cannot be required to establish CSR guidelines. However, if they contact Norwegian bodies that provide export or credit guarantees, or advisory bodies, they are informed of the authorities' views on CSR, and if they receive support, they are obliged to comply with the standards used by these bodies. Companies that engage in unethical practices will not receive support under the schemes managed by these bodies.
- According to the 2011 white paper on state ownership, the aim is for state-owned companies to be at the forefront of CSR work in the fields in which they operate and to contribute to the development of sound business practices in these fields. For example, the Government expects such companies to include in their CSR guidelines requirements relating to human rights, workers' rights and decent work, anti-corruption efforts, transparency in relation to financial flows and taxation, and environment and climate change issues.
- The Government has held consultations on proposals to amend the accounting legislation that would require large companies with a statutory obligation to keep accounting records to report which ethical guidelines or CSR standards they follow, and how they have performed in relation to these during the accounting year. Companies that do not have such guidelines would have to disclose this. The Government aims to submit the bill to the Storting in the autumn of 2012.
- The Government hopes that the EU's proposed requirements for financial reporting on a country-by-country basis by multinational companies will ensure additional transparency as regards extractive industries, reveal any tax evasion and identify the revenues from such activities.
- The Government is seeking to have requirements for country-by-country accounting introduced throughout the EEA as soon as possible, and will make them effective in

Norway from 1 January 2014 even if they are not brought into force in the EU until a later date.

- CSR is followed up by the OECD National Contact Point, which deals on an independent basis with cases of alleged ethical bad practice on the part of Norwegian companies operating abroad, with reference to the OECD Guidelines for Multinational Enterprises.
- The management of the assets of the Government Pension Fund Global is followed closely. The ethical aspects of the Fund's investment profile are frequently the subject of public debate. The GPFG's governing bodies consider these questions on an on-going basis, and make adjustments to ensure that investments are accordance with the Fund's guidelines.
- Norway was at the forefront of the efforts in the UN that culminated in the adoption of the *Guiding Principles on Business and Human Rights* in the UN Human Rights Council in 2011.
- An ISO standard on social responsibility has now been established. It is based on ILO's, the UN's and the OECD's standards. However, a good deal remains to be done before we have an internationally accepted standard for reporting CSR compliance.

An inter-ministerial working group has been established to follow up the Government's CSR policy. Matters relating to CSR are also dealt with by the Government's consultative body on matters relating to CSR, KOMpakt, which is made up of representatives of the authorities, the business sector, trade unions, civil society and academia. The Government is engaged in an on-going dialogue on CSR with state-owned companies.

Management models and plans

The Oil for Development (OfD) programme offers assistance to developing countries in improving their resource management through the development of legislation, routines and institutions. It is also designed to promote revenue transparency in the petroleum industry. In the Government's view, the measures that have been implemented to prevent any conflict of interest between the OfD's goals and Norwegian business interests function well.

Management plans and relevant legislation are instruments that, in the form that they take in Norway, require a well-functioning administrative system, but that, in other forms, can also provide valuable frameworks in developing countries. This is why assistance in developing these instruments is included in both the OfD initiative and other aid-financed governance and management initiatives.

Norwegian policy guidelines

The Norwegian authorities have various opportunities to influence the general framework for Norwegian investments at home and abroad. A number of official documents set out Norwegian policy in this area. See the box on Norwegian policy guidelines.

These documents convey the message that the Government wishes to promote Norwegian direct investment and financial investment abroad and considers that investments should benefit investors, host countries and Norway. In the Government's view, Norwegian companies should operate within the same ethical framework and have the same emphasis on CSR abroad as they do in Norway. In this way, developing countries can receive important input and knowledge transfers, which in turn may improve framework conditions for the business sector in these countries, as well as for foreign investors and actors.

In Norway, use has been made of investments in the energy sector to promote inclusive growth and finance public goods, while at the same time protecting workers' rights. There is

also useful experience of dealing with conflicts related to natural resources. This experience is very valuable when taking steps to ensure that investments contribute to value creation in developing countries that also benefits the population. Norway is therefore happy to share its experience with developing countries, and has various systems for doing so.

Box 1

Norwegian policy guidelines

The Norwegian system for export financing is important for the export of capital goods, and is described in a draft resolution on export financing[1] published in 2011. Export financing is based on the principles of CSR as set out in the white paper *Corporate Social Responsibility in a Global Economy*. The Guarantee Institute for Export Credits (GIEK) follows the same principles, and also has its own procedures for assessing environmental and social issues relating to projects. In addition, GIEK follows the Equator Principles for managing environmental and social risk in project finance transactions, and bases its work on standards issued by the International Finance Corporation (IFC) and the World Bank. The main task of Norway's financing and guarantee institutions is to promote Norwegian exports, but they also stimulate Norwegian investment abroad. At the same time, the rules they operate by highlight key values and principles in Norwegian labour policy and show how standards can be set.

Major Norwegian investments often benefit from financing and risk management packages put together with help from Norfund. Foreign capital, for example from IFC, often plays an important role in this connection as well.

Corruption is a criminal offence in Norway, even if it takes place abroad, as is the case in several other OECD countries.

The Government's policy for promoting its principles and values vis-à-vis Norwegian companies is set out in the white paper on CSR, which emphasises the importance of dialogue with the business sector in efforts to promote CSR. Gender equality is raised in these dialogues, for example with reference to the rules on gender balance on company boards introduced in 2003 and the white paper *On Equal Terms: Women's Rights and Gender Equality in Development Policy*. The white paper *Towards Greener Development*. *On a coherent environmental and development policy*, discusses the aim of maintaining an environmentally and climate friendly profile in Norwegian investments, while the white paper *Global Health in Foreign and Development Policy* sets out the Government's ambitions as regards health. The white paper *Climate, Conflict and Capital – Norwegian development policy adapting to change* discusses goals for global development in an overall perspective, including humanitarian, social and business issues. A white paper on climate policy[1] published this year describes national and international principles and guidelines for Norwegian climate policy. It points out that energy policy, both at home and abroad, is an important part of climate policy.

In the case of companies that are wholly owned by the Norwegian state and companies where the state has a substantial ownership interest, the Government's policy is set out in the 2011 white paper on state ownership.

The Government presents an annual white paper on the management of the Government Pension Fund, most recently for 2011.

This report describes the framework conditions that the Norwegian authorities have established for government and private investment and relevant Norwegian positions that are promoted in international forums. Chapter 3 gives a brief overview of the main Norwegian actors and indicates the volume of Norwegian investments in the energy sector in developing

countries. Chapter 4 looks at the main energy-related challenges in developing countries. Chapter 5 describes the conditions that must be met in developing countries for a more coherent policy for development to function as intended. This chapter also looks at conditions in Norway from this perspective. Chapter 6 is the main chapter of the report. This gives an account of how the various areas of Norwegian policy affect private sector development in developing countries, with a special focus on investments in the energy sector. The part that international development policy plays in ensuring that investments contribute to better distribution of social goods is discussed here. Chapter 7 illustrates some of the issues discussed in the other chapters, taking Angola as an example of a country where there is considerable Norwegian activity.

3. NORWEGIAN ENERGY INVESTMENTS IN DEVELOPING COUNTRIES

Norwegian expertise in renewable energy – in the form of hydropower – dates back more than 1000 years. The modern energy era started with Hydro's production of mineral fertiliser. Hydro later expanded into aluminium and oil production, and the fertiliser operation was spun off as a new company, Yara. Today, both Hydro and Yara are partly state-owned companies with a presence in many countries. Statkraft is the main developer of renewable energy in Norway. SN Power, which was established in 2002, is owned by Statkraft (60 %) and Norfund (40 %). Agua Imara, a subsidiary of SN Power, was established in 2009. These, together with many regional Norwegian power companies, are engaged in hydropower development in developing countries, as are several Norwegian wind and solar power companies. The first Norwegian investments in power production in developing countries were in 1965/66 – in Nepal under the auspices of the Norwegian mission in Tibet, now called Himalpartner.

In the petroleum sector, importance was attached to developing Norwegian companies at an early stage. Hydro, Saga Petroleum and Statoil were awarded substantial ownership interests and operator responsibilities on the Norwegian continental shelf, which resulted in a rapid development of Norwegian expertise in upstream petroleum operations, i.e. exploration and production. All three companies also became engaged in overseas operations, but Saga merged with Hydro in 1999, and Hydro's petroleum operation merged with Statoil in 2007. Today, Statoil is 67 % state owned. Statoil is by far the largest Norwegian investor in the energy sector and is ranked 13th worldwide in terms of turnover.

A number of Norwegian supplier companies to the petroleum sector were established at an early stage, and Norwegian companies in this sector are now at the forefront internationally in several areas.

INTSOK – Norwegian Oil and Gas Partners – was established to promote internationalisation of the supplier industry, and is partly funded by the Ministry of Petroleum and Energy. It has more than 200 partners, representing more than 300 companies. Many Norwegian supplier companies are based solely in Norway, but several have also established international operations. Today the Norwegian supplier industry has an overall turnover of around NOK 150 billion.

According to a report from the consultancy firm Menon on the internationalisation of the Norwegian offshore supplier sector,[2] Norwegian oil companies in 2008 recorded foreign direct investment (FDI) amounting to NOK 180 billion, while the corresponding figure for the supplier industry was NOK 62 billion.

According to the report, investments by Norwegian oil companies in developing countries, including countries in North Africa and Latin America, amounted to around NOK 56 billion. Of this, around NOK 22 billion was invested in Angola. The supplier industry recorded virtually no direct investments in developing countries in 2008, but exported a considerable volume of equipment. However, in the same year, the industry recorded NOK 5 billion as direct investments in offshore financial centres/tax havens. The report suggests that this is partly because parts of the supplier industry have links with ship-owners, many of which are registered in offshore financial centres/tax havens. It may also be a way of managing risk. Another possible reason is that many companies hire equipment for operations in areas of high political risk rather than owning it. In 2006, the Institute for Research in Economics and Business Administration (SNF) published a report on the internationalisation of petroleum-

[2] Report no 9/2010 (Norwegian only)

related industry[3], which points in the same direction. It shows that around 28 % of the Norwegian supplier industry's turnover in West Africa was generated through partners.

INTSOK's overview for 2011 shows that the most important markets for companies providing services and equipment are Brazil, Nigeria and Angola. Today, Statoil is engaged in oil and gas production in 13 countries, including Angola, Azerbaijan, Brazil, China, Libya, Nigeria and Venezuela. It is mainly oil companies that invest in these countries. For example, INSOK found that no supplier companies made direct investments in Africa in 2011.

INTPOW, Norwegian Renewable Energy Partners, is a non-profit organisation that promotes cooperation between the Norwegian authorities and Norwegian renewable energy companies. It was established in 2009 and is involved in a wide range of activities globally. Its overviews show that the Norwegian renewable industry is mainly engaged in middle-income countries, particularly Brazil, Chile, Peru, South Africa, China and India. However, the industry is also active in Vietnam and Mozambique, which are low-income countries. Most projects in developing countries are partly financed by Norfund, SN Power and Agua Imara.

In 2011, SN Power's investments in renewable energy amounted to more than USD 1.1 billion divided between 38 plants and nine developing countries in Latin America, Africa and Asia. An additional nine projects are being developed. SN Power operates on a commercial basis and is mainly engaged in hydropower development, but also invests in wind power. Its operating revenue in 2011 was USD 453.2 million.

SN Power's projects contribute to business development at national level through improvements in electricity supplies, and the company also focuses on social development in the community in connection with its projects in Asia and South America, which are also designed to underpin the company's commercial development. These include projects in the Philippines, India, Peru and Nepal in areas such as microfinance, electrification of local communities, water management and health. Eight of the company's projects in Brazil, Chile, Peru and the Philippines are registered as Clean Development Mechanism (CDM) projects, and earn more than two million certified emission reduction (CER) credits a year.

The objective of Agua Imara is to become a leading hydropower company in emerging economies in Africa and Central America. Its main owner, SN Power, has an ownership interest of 51 %. Its other owners are Norfund, Bergenshalvøens Kommunale Kraftselskap (BKK) and TrønderEnergi. In 2011, Agua Imara's assets amounted to NOK 913 million, most of which were investments in hydropower plants in Zambia and Panama.

Norway provides financial investments for the development of renewable energy both directly and indirectly. Norfund invests in energy projects in developing countries, which gives it access to knowledge of local conditions that it might otherwise lack. Norfund's investments in the renewable energy sector in 2011 amounted to NOK 3.58 billion. This is more than half Norfund's total investment portfolio. A number of private investments, savings and pension funds have also invested in developing countries. Some, such as the mutual fund owned by Norwegian municipalities (Kommunal landspensjonskasse), have done so in cooperation with Norfund.

Norad provides catalytic funding for private sector development amounting to NOK 300 million a year. This is not earmarked for energy developments, but energy is a priority sector.

Grants are available for programmes that are primarily intended to improve energy access and

[3] *Petrorettet næringsliv i Norge: Tiltakende internasjonalisering og global tilstedværelse*, SNF project 2670 (*Petroleum Related Industries in Norway: Increasing Internationalization and Global Presence.* In Norwegian only)

energy efficiency. The funding available from the various budget items amounts to around NOK 50 million a year. Much of this funding is used for risk management in the high-risk feasibility study phase of projects, during which the decision base for a possible investment is established.

Box 2

Bugoye hydropower plant, Uganda

When it was opened in 2009, Bugoye, which is situated close to the border with the Democratic Republic of Congo, was one of the first hydropower plants to have been built anywhere in Africa for 14 years. It has a capacity of 14 MW and produces 82 GWh per year. Despite its modest size, it produces around 5 % of Uganda's electricity consumption. Using diesel generators to produce the same amount of electricity would result in annual emissions of 65 000 tonnes of CO_2. The plant also earns revenues from carbon credits.

Today, Bugoye is operated at a profit, and supplies power to the national electricity grid, and thus to Ugandan businesses and households. It was built, and is run and owned, by TrønderEnergi. Norfund played a key role in the financing of the project, and also has an ownership interest. Some of the capital was provided through Norwegian grants to Uganda. The total cost was USD 65 million.

Construction of the power plant entailed major changes for the local community, and 33 families had to be resettled. Graveyards, beehives and livestock had to be moved. A total of 566 households received compensation for loss of land and support for adaptation to their new situation. New clinics have been established, and malaria and HIV/AIDS programmes have been launched. A clean water supply has been set up and an upper secondary education programme for women is under way.

In addition, Norad is involved in several multilateral energy projects, including a three-year agreement on core funding of the Public–Private Infrastructure Advisory Facility (PPIAF) in the World Bank Group, focusing particularly on Africa. In 2012, Norad also entered into an agreement with the non-profit International Hydropower Association, which is linked to UNESCO, on funding for the implementation of its Hydropower Sustainability Assessment Protocol in developing countries. Cooperation has also been established with the multilateral financing initiative CleanStart under the UN's capital investment agency UNCDF, which is seeking to improve access to clean and reasonably priced energy for more than 2.5 million poor people.

Norway also invests in the energy sector in developing countries by purchasing carbon credits (CERs) from the Clean Development Mechanism (CDM). This is a way of transferring resources and technology from rich to poor countries and to sustainable development in the South. By purchasing carbon credits, Norway also helps to develop the emissions trading market and contributes to energy efficiency measures in developing countries. However, the level of activity under the CDM is expected to decline in the next few years due to a lack of demand and because the price of CERs has fallen to a very low level.

Indirect ownership

Some actors may invest in the energy sector without this being a specific aim. The management of the Government Pension Fund Global is designed to achieve the greatest possible international purchasing power for the Fund's capital over time, subject to a moderate risk level. At the end of 2011, its equity investments were spread over 8 000 companies in more than 50 countries. This is equivalent to an average ownership interest of 1.1 % in the world's listed companies. The Fund's investments in emerging markets and its work on responsible investment are described in Chapter 6.6.

4. ENERGY-RELATED CHALLENGES IN DEVELOPING COUNTRIES

4.1 The energy situation in developing countries

Economic growth and energy use are closely linked. Access to energy, particularly electricity, is essential for business development and improvements in welfare. Most countries are therefore giving high priority to the development of power plants and transmission and distribution grids, and at the same time increasing wind and solar power capacity.

Energy is a scarce resource, particularly in developing countries. Almost all activities require energy – preparing food, running schools, hospitals and businesses, and transport. The scale, speed and efficiency of all these activities are to a large extent governed by access to energy and energy prices. According to the International Energy Agency (IEA), 80.5 % of the world's population and 68 % of people in rural areas had access to electricity in 2009. This means that there were 1.3 billion people without electricity. Moreover, 40 % of the world's population depended on coal, charcoal or various forms of biomass for cooking. The UN Intergovernmental Panel on Climate Change (IPCC) points out in this connection that developing countries have 53 % of the world's renewable electricity production capacity, and estimates that there is substantial potential for increasing this further. According to the IEA's Current Policies Scenario, energy use in non-OECD countries will rise by nearly 40 % from 2009 to 2020. In 2009, fossil sources, particularly coal, accounted for 86 % of energy production in these countries, and fossil fuels are expected to continue to dominate the energy mix for a long time to come. At present, around 60 % of global greenhouse gas emissions are energy related. We therefore face the difficult challenge of increasing global energy use while limiting greenhouse gas emissions to a level that will make it possible to achieve the two-degree target, which the IPCC has identified as the critical threshold for global warming.

To ensure improvements in welfare in developing countries, it is important that the revenue from resources that are developed is properly managed to create jobs and provide better infrastructure, health, education and other social services.

The overall figures for energy production and use conceal large differences between countries. According to Norfund and the IEA, total electricity production capacity in the whole of sub-Saharan Africa excluding South Africa is no greater than Norway's, and only an estimated 5 % of the hydropower potential has been developed. In 2009, only 30 % of the population in the region and 14.2 % of people in rural areas had access to electricity. Tanzania is one of the countries that scores lowest, with 14 % electricity coverage for the population as a whole and only 2.5 % in rural areas.

In some areas, there are gas supply networks, and in many countries, gas cylinders for cooking are available to people who can afford them. Natural gas is an energy carrier that has few detrimental health effects at the local level. The use of natural gas contributes to global CO_2 emissions, but to a lesser degree than fuelwood or coal. In many areas without access to gas and electricity, the only alternative is fuelwood or charcoal, which cause emissions of greenhouse gases. Fuelwood use also has serious health effects, which charcoal does not. Another side effect of fuelwood use is deforestation, which leads to soil erosion and increases the risk of flooding and drought. Moreover, fuelwood is not a suitable energy source for businesses that require large amounts of energy, and if no alternatives are available, opportunities to generate income and create jobs are limited.

Major commercially viable discoveries of oil and gas have been made in many developing countries, for example in Tanzania and Mozambique in 2012. Important discoveries have also been made in Ghana and Indonesia in recent years. Such discoveries give countries greater

opportunities to generate revenue that can be used for development, and in the long term to increase their self-sufficiency in fuel. Norwegian companies are taking part in the development of these resources.

Lack of access to electricity generally impedes social development. Cooking with fuelwood or coal exposes people to fumes and soot indoors, which in turn cause lung diseases that claim some two million lives every year. In addition, fetching water takes hours of women's time every day. Drilling wells and setting up electrical pumps can ease their burdens considerably. Women also need electricity to run home businesses and make an independent income. Without electric lighting, it is difficult for people to study and complete an education. Electricity for mobile phones, radio and TV is also vital if people are to keep up-to-date with what is going on in their society, and for public information and democratisation. Access to electricity also makes it easier to create jobs and reduce the pressure on social security and stability that results from unemployment.

4.2 Energy and private sector development

Energy shortages constitute a serious bottleneck for business development, and restrict both where activities can take place and the level of investment in certain sectors. A lack of access to electricity or unstable electricity supplies is high up on the list of obstacles for private sector actors in Africa, South Asia and other regions, as shown for example in the World Bank's annual Enterprise Surveys. In *African Economic Outlook 2012*, the responses to these surveys in the period 2006–11 were summarised, and the conclusion was that in sub-Saharan Africa, inadequate access to electricity is by far the most important obstacle to business development.

At the same time, many developing countries, not least in Africa, have a major unused hydropower, solar power and in some cases wind power potential. In some countries, there is also a considerable potential for the use of gas. At present, a considerable proportion of electricity generation in developing countries uses diesel generators without emission control equipment. It is cheaper to install generators of this kind than to construct hydropower plants, but they have a much shorter lifetime and are more expensive to operate, particularly when oil prices are high. This is another reason for a country to develop its own resources in a climate-friendly way. Many countries have access to cheap coal and for these, coal-fired power production is an alternative. As long as fossil fuels are necessary or preferred, it is vital to use good, reasonably priced emission control technology as a climate change mitigation measure.

4.3 Energy and climate change

The production and use of fossil fuels across the world results in greenhouse gas emissions, both from transport and from oil-, gas- and coal-fired production. Energy production and use currently account for almost two-thirds of global greenhouse gas emissions. The IEA estimates that without new policies being implemented energy demand in the non-OECD countries will increase by 90 % up to 2035 under the Current Policies Scenario. According to the IPCC, global greenhouse gas emissions must peak by 2015 and thereafter be reduced by 50–85 % relative to the 2000 level by 2050 if the two-degree target is to be achieved. Present trends in emissions indicate that this goal cannot be achieved unless further steps are taken. To limit negative impacts on the climate caused by improved energy access in developing countries, priority must be given to investments in renewable energy and energy efficiency measures. This is important to avoid technological lock-in that perpetuates a fossil-fuel based infrastructure and to ensure a transition towards a low-carbon economy.

Rich countries and middle-income countries with sufficient capacity must bear their share of

the costs of this transition. A key element of efforts to harmonise international cooperation on climate change and development policy will be to find ways of helping developing countries to take a low-emission path of energy use.

In many developing countries, private sector investments are restricted by a range of factors. In addition, there is often a lack of incentives to choose low-emission alternatives, for example carbon pricing or support for renewable energy development, which make low-emission technology more profitable. On the contrary, there are often subsidies that reduce the cost of using fossil energy carriers. These have a negative effect and can undermine measures adopted to reduce greenhouse gas emissions.

All countries need to give priority to investments in renewable energy and energy efficiency measures, for example by eliminating fossil fuel subsidies and introducing carbon pricing. Greater investment in climate-friendly energy solutions will create a better starting point for a renewed global climate effort, where countries can contribute according to the responsibility they bear and their particular circumstances.

Poor countries in areas that are already prone to drought and flooding are expected to be most severely affected by climate change in the time to come. People in these countries do not have sufficient resources to protect themselves against the impacts of climate change, which threaten food security at both local and global level. In addition to taking steps to cut greenhouse gas emissions, it is therefore also essential to implement climate change adaptation measures, including flood control, irrigation and other measures to promote food security. Adaptation measures involve additional costs, and this is therefore a priority area in Norwegian development policy.

Box 3

The challenges of urbanisation

By 2050, it is expected that around 70 % of the world's population will live in urban areas. Towns and cities already account for 75 % of all energy use and 75 % of global CO_2 emissions.

Nevertheless, the primary driver behind rising greenhouse gas emissions is the growth in the number of consumers and their consumption level. Improvements in welfare, which are largely taking place in urban areas, are thus contributing to our growing environmental problems. Housing accounts for 40 % of world energy use. In China, the monthly increase in the housing stock is equivalent to the present housing stock in Houston in the US. This is necessary to meet the housing needs of the 10 million people who move to towns and cities every year.

Population growth will be particularly rapid in medium-sized urban areas (with fewer than 500 000 inhabitants) where the infrastructure and social services are inadequate. Climate change may in some cases force towns and cities to move and make it necessary to develop completely new urban areas. On the other hand, the concentration of people in urban areas makes the energy supply system more cost effective. This is an expression of the urban sustainability multiplier, i.e. the process through which the high density of urban living in itself reduces energy use and material needs, for example through high residential density and more effective transport, water supply, sewage and refuse collection systems.

"Compact cities" can thus make investment in energy and environmental measures more cost effective, but rapid urbanisation in developing countries still poses many challenges.

4.4 Conflicts relating to the use of energy resources

Poverty reduction and rising standards of living are resulting in a rapidly increasing energy demand in many countries, and it is a considerable challenge for the authorities to provide adequate energy supplies for the whole population at a reasonable price. Renewable energy production does not generate greenhouse gas emissions, but it is often more expensive and less reliable than fossil-based energy. The development of renewable energy sources often entails major disturbance to the natural environment and disruption for people living in the area.

There is potential for solar and wind power in many developing countries, particular in those countries where the capacity of the transmission and distribution grids is inadequate. Renewable energy production often results in restrictions on the use of areas by other users, and can therefore result in conflict. Many of the problems that can arise in connection with hydropower developments can be avoided in the case of solar and wind power production, but developing these sources is more expensive per kilowatt hour of energy produced.

It is possible to develop hydropower without building large reservoirs, but in many cases, dams can play an important role in irrigation. However, such projects often meet opposition: they may require relocation of the local population and in some cases encroach on indigenous people's lands and way of life, and they involve physical disturbance of the natural environment. Developments can also affect fish resources and opportunities to use river systems for irrigation. The development of the Bugoye power plant in Uganda is an example of a project that succeeded in minimising environmental impacts and providing social benefits (see text box in Chapter 3).

Damming a river for energy production or other purposes can also cause conflicts between countries. Disputes over ownership and the division of user rights can easily arise where major rivers run through several countries, as is the case with the Nile, Euphrates and Ganges. However, agreement can be reached if the countries concerned are willing to share the costs of development and the electricity generated, as Lesotho and South Africa or India and Nepal have done. The Itaipu hydropower plant, which is owned 50/50 by Brazil and Paraguay, is another good example of mutually beneficial cooperation between countries.

Developments in the petroleum sector can also give rise to conflicts of interest. A recent example is the conflict between Sudan and South Sudan over the right to the oil in the fields situated in the border areas. Norway's continental shelf initiative, which helps developing countries to establish the outer limits of their continental shelf, is an example of action that can be taken to promote a peaceful outcome.

The IEA estimates that in 2010, fossil-fuel subsidies worldwide amounted to more than USD 400 billion. Around three-quarters of this consisted of consumer subsidies in developing countries, but only about 8 % reached the poorest 20 % of the population. A somewhat uncertain estimate suggests that phasing out fossil-fuel subsidies entirely would cut global emissions by nearly 5 % by 2020. The expense of these subsidies is a burden on many countries' budgets, and they lead to negative climate effects, but there are often large groups of voters and important local industries that have become dependent on subsidised energy. The prospect of higher energy prices is thus an important political issue in many countries, and one that can cause social unrest.

Box 4

Liberia

The civil war in Liberia ended in 2003. Energy supplies were severely affected, and since 2006, Norway has provided nearly NOK 400 million for the provision of generators, reconstruction of the transmission and distribution grid and capacity building for the energy authorities. In addition, Norway will provide an equivalent amount for the reconstruction of the Mount Coffee hydropower plant (capacity 60–70 MW), which will replace the diesel generators.

The importance of electricity is illustrated by comments from people in Monrovia, who say that street lighting has made it safer to be out in the city at night. Electric lighting is also appreciated by students who can now continue their studies after dark.

Norway's total aid to Liberia in 2011 was NOK 197 million, and was channelled mainly to the energy sector and the justice and home affairs sector.

Box 5

South Sudan

In South Sudan, Norway intends to provide assistance for the construction of a 40 MW hydropower plant that can meet Juba's energy needs for the near future. The project has a possible start-up date of 2015. At present, the country has almost no energy infrastructure. An investment of approximately USD 150 million is needed for the power plant itself. Norway has indicated that it will provide NOK 300 million of this (equivalent to approximately USD 50 million at the time of writing). In addition, around USD 46 million is needed for transmission lines and a complete upgrade of the distribution grid in Juba. NOK 18 million has been allocated for the planning stage through Norfund. In addition to aid funding, the plan is for the project to be funded by capital from South Sudan itself, Norfund, private investors and loans from international financial institutions.

Norway is also supporting institutional development in the Ministry of Electricity and Dams and South Sudan's national power company. The Norwegian Water Resources and Energy Directorate is involved in this work.

5. ENSURING THAT INVESTMENTS BENEFIT THE POOR IN DEVELOPING COUNTRIES

5.1 Good governance

A predictable and favourable business environment is needed to encourage companies to establish operations in a country. The host country must have contract law in place and ensure that it is adequately enforced. It must also be straightforward for companies to establish operations without too much bureaucracy and without encountering corruption, and employer–employee relationships should be well organised. In some countries important elements of this framework are lacking. Nevertheless, there will still be companies that choose to invest because the potential returns are very high and earnings can be distributed on a regular basis with minimal taxation, or because there are guarantee schemes in place that can be used to manage the risk associated with changing political circumstances.

Good governance is also about the willingness of the authorities to tax residents and investors, and to spend the tax revenues on social development and on establishing and supporting an equitable distribution policy. Countries with resources that can generate high profits over and above the normal return on invested capital, such as oil and gas or other natural resources, should be particularly well placed to do this. In practice, however, an abundance of natural resources has often proved to be a source of conflict and to lead to the enrichment of a small minority of the population.

Corruption is a serious problem in many countries. First and foremost it leads to economic losses for the host country. For the population as a whole, corruption acts as an additional tax and allows officials to exert illegitimate power and suppress others. Norwegian legislation prohibits companies from making under-the-table payments, and breaches of this legislation are punished. In the long term, maintaining a clear anti-corruption stance will help to reduce the scale of corruption.

Corruption and embezzlement of funds in the lucrative extractive industries often contributes to illicit financial flows that help to sustain tax havens and money laundering activities. Organisations such as Transparency International have helped to bring these matters to light, and the intergovernmental Financial Action Task Force (FATF), of which Norway is a member, is helping to combat this by providing recommendations and promoting the implementation of relevant measures.

Norway cooperates with other countries in efforts to combat illicit financial flows across national borders, for example through the Global Forum on Transparency and Exchange of Information for Tax Purposes under the OECD and the Task Force on Financial Integrity and Economic Development. Illicit financial flows are estimated at more than USD 1 200 billion, a figure that is ten times as high as all official development aid together, and the largest proportion of this originates from tax evasion. One method that is used is abusive transfer pricing in multinational corporations, which involves shifting profits to offshore financial centres/tax havens where transparency and access to information are very limited. Switzerland, the Cayman Islands and Luxembourg are among the least transparent of these. Within the OECD, Norway is involved in efforts to increase transparency and prevent the illicit use of tax havens.

The Extractive Industries Transparency Initiative (EITI), which has its headquarters in Norway and which Norway and several Norwegian companies have joined, and the global Publish What You Pay campaign also promote transparency in these areas. Illicit financial flows, the negative effects of these on developing countries, and efforts to alleviate the

problem are described in the Official Norwegian Report *Tax havens and development* (NOU 2009:19).

5.2 Preventing illicit financial flows and loss of tax revenues

A sound regulatory framework is essential to attract investment, but a framework that is favourable for investors is not necessarily in the best interests of the local population.

Many countries have established special economic zones where there are tax and customs incentives to foreign investors that establish operations in these areas and where the country's normal labour standards often do not apply. China, for example, established special economic zones in the early 1980s. The main arguments for establishing these zones is that they create jobs, bring in knowledge and technology, and generate export revenues and in time economic spin-off benefits for the country as a whole. However, studies carried out by the World Bank and others have shown that this happens only to a limited extent and that the welfare effects are greatest in cases where the authorities are most willing to use the revenues generated for welfare purposes and ensure that there is a transfer of expertise, as in the case of China.

A similar financial incentive that is more relevant for energy companies, which normally have to establish operations near the resources they use, is a more or less permanent tax exemption or reduction in the rate of tax on profits (a tax holiday). Such incentives can also take the form of tax agreements between the host country and an offshore financial centre/tax haven. These are widely used schemes that allow multinational corporations to reduce the risk of losses in countries where other types of guarantees are not considered adequate. One disadvantage of this system is that it reduces the tax revenues the host countries could have received in addition to royalties and licence fees, and means that they are less able to finance infrastructure and welfare development. Tax agreements of this kind can also be misused for illicit tax evasion purposes.

Host countries where there are good profit opportunities, but also a high level of political and commercial risk, have to weigh up carefully how stringent legislation relating to taxation and the establishment of companies should be. Legislation that is too stringent could discourage investors. Legislation that is too weak could result in low revenues for the state.

A first step towards keeping more of its revenues is for a host country to avoid entering into agreements with offshore financial centres/tax havens or to introduce legislation that limits their use. In cases where the potential capital returns for companies are high, as in the extractive industries, states should be able to secure high revenues through strict company establishment and taxation rules, without risking the withdrawal of investors – given that the overall political conditions are reasonably stable and that legislation is properly enforced. The taxation and management regimes that were established in connection with the development of the Norwegian continental shelf demonstrate how a country can receive a large proportion of the profits generated by resources such as these through taxation and at the same time maintain control of resource management without risking the loss of investor interest.

5.3 Decent work

Low labour costs can play a significant part in determining which countries a multinational corporation wishes to invest in. However, this not a primary concern for energy companies, for which access to resources is paramount. Standards and monitoring of working conditions and pay are weak in many developing countries, but decent pay and working conditions have proven to result in higher productivity for companies that establish themselves in these countries. As the knowledge content in production increases in many industries, the need for skilled labour is also growing. It will thus be in the interests of corporations to promote good

education and health, both through their own activities and by paying taxes that enable the host country to provide effective social services.

Better working conditions are one of the signs of social development. The Government has sought to take this into consideration in its seven-point strategy to promote decent work at the global level, which is based on the Decent Work Agenda developed by the International Labour Organization (ILO). The strategy states that Norway will actively promote decent work in its foreign policy, development policy, trade policy, business and ownership policy and labour policy. Special priority will be given to building capacity and institutions to monitor and enforce legislation on labour standards. Norway's development policy, its efforts through the ILO and cooperation such as that between the Norwegian Labour Inspectorate and labour inspectorates in other countries are important channels for promoting decent work.

The Government supports the efforts of the ILO to gain recognition for the principles set out in its eight core conventions as the basis for employer–employee relationships in all countries. These conventions deal with issues such as freedom of association and the right to collective bargaining, gender equality, the abolition of child labour, the abolition of forced labour, including human trafficking, and the elimination of various types of discrimination. The Government considers these principles to be fundamental in efforts to encourage Norwegian multinationals to strengthen their CSR performance.

The ILO conventions relating to decent work are applicable in countries that have ratified them. Various voluntary reporting schemes that also deal with issues other than working conditions are relevant in this context as well. These include the OECD Guidelines for multinational enterprises and the voluntary mediation process for resolving complaints. The UN Global Compact is another initiative that identifies in general terms the aspects of operations that companies should include in reports. The Global Reporting Initiative (GRI) has developed a comprehensive Sustainability Reporting Framework, which Norway recommends that companies use, and some companies are doing so. These voluntary reporting schemes also cover decent working conditions.

5.4 Investment, social development and the Norwegian model of labour relations

An important part of the motivation for promoting business development in developing countries lies in the experience we have gained in our own development from an agricultural society to a modern industrial nation and beyond. A wide range of factors such as good governance, capital and tax revenues, workers' rights, technology and energy have played a key role in this long process. Access to inexpensive and renewable energy in the form of hydropower was crucial to the industrialisation and further development of the Norwegian society. Since the 1970s the process has been greatly supported by substantial revenues from the oil industry.

At the beginning of the last century, the political situation in Norway and the other Nordic countries was dominated by class conflict, but this period also saw the development of key political institutions. Since the Second World War, there has been close cooperation between the social partners, which together with collective wage settlements has meant that on the whole wage trends have kept pace with productivity trends. This in turn has enhanced economic growth and stability.

According to an overview by the OECD, inequality of income in Norway, measured after taxes and transfers, is the third lowest in the OECD. The same is true if we look at the distribution of assets. There are few people living in poverty in Norway, few very wealthy individuals, and the wealthiest segment of the population owns a significantly lower share of the total wealth than is the case in many other countries. This is partly thanks to the

Norwegian tax system and the low levels of tax evasion due to the state's ability to recover taxes and a general willingness to pay tax. In Norway, most people are in employment and have a satisfactory income, and thus contribute to the circulation of money in the economy through taxation and consumption. This means that the welfare state has a better economic foundation than in countries where income distribution is very uneven and unemployment levels are high. Free, high quality education, good and affordable health services and effective infrastructure in turn support value creation. The Norwegian or Nordic model has been held up as an example for developing countries by the World Bank and others, in part because of its ability to create growth that benefits the majority of the population.

The model as a whole is deeply rooted in Norwegian and Nordic history and as a result cannot be easily exported. It can, however, provide important insight into why certain other social models do not function as well, and it should be possible to adapt elements of the Nordic model to other circumstances. One such element is effective taxation of incomes and wealth that allows countries to develop good, sustainable education and health systems and other welfare schemes.

However, as indicated earlier in this chapter, not every country or government gives priority to building a society with well-functioning institutions, equitable income distribution and an emphasis on good governance. Thus, in many countries the conditions for investments and for establishing new enterprises remain difficult and involve high levels of risk. Health and education systems in these countries remain inadequate and the general standard of living is low.

Many aid donors offer programmes for institutional development to countries that are seeking to strengthen their institutions with a view to attracting investment, promoting social development and reducing disparities. In this context Norwegian development policy sees aid as a tool for building up key institutions and for stimulating development. Well-functioning institutions for taxation and for managing fisheries resources and oil and gas resources and the revenues from these industries can promote good governance and trigger more investment from Norway and other countries.

However, aid for institutional development can only ever be offered. Some countries will want to make use of these offers, while others will not. In some countries the overall institutional network is so poorly developed that, no matter how strong the political will, it is very difficult to ensure that institutions that are established or upgraded function effectively. This makes it difficult to attract investments to the country except in areas where profitability levels are at times very high, such as the energy sector. In cases where the Norwegian Government or Norwegian-based companies contribute to investments of this kind, all parties have a responsibility to ensure that the host country receives reasonable compensation for the resources that are extracted.

In international forums Norway regularly expresses an interest in sharing experiences with other countries with a view to promoting development – both economic development and the development of human rights and democratic institutions.

6. AN INVESTMENT POLICY FOR SOCIAL DEVELOPMENT

6.1 Project financing and risk management

The oil and gas and renewable energy sectors are as a rule highly capital intensive and it generally takes several years before projects yield a positive cash flow. Few Norwegian companies are in a position to make such investments alone, and cooperation between a group of investors is therefore often necessary. Investment consortia of this kind often include private investors, state-sector sources of finance and financial institutions both in the host country and in Norway and other countries, and international financial institutions.

Investments in developing countries generally carry a considerable commercial and political risk. In the case of oil and gas extraction, the commercial risk is high, especially during the exploration phase, but this is nevertheless an attractive sector for investors because expected yields are high. It is more difficult to ensure the commercial viability of investments in hydropower development because they often give relatively low yields.

Because the overall level of risk is high, a considerable proportion of the necessary capital often needs to be provided by investors with a high risk capacity. Some investors therefore make use of offshore financial centres to manage the risk, as discussed earlier.

The Norwegian framework for project financing

Public-sector financial and guarantee institutions in Norway focus mainly on export industries. However, funding and guarantee schemes can also benefit investments in developing countries. GIEK (Norwegian Guarantee Institute for Export Credits) plays a key role here through its guarantee scheme for export to and investment in developing countries. The scheme covers political risks associated with Norwegian investments in developing countries and triggers counter-guarantees from the host country, which can be submitted to international arbitration in the event of non-compliance with an agreement. There has been a long-running debate between the business sector and the state as to whether the financial framework for the scheme is satisfactory. There is no public Norwegian scheme to cover the commercial risks associated with investments abroad.

One element of the Government's policy for promoting commercial investments in developing countries is to make use of aid as a catalyst. Norad has for some time had grant schemes that reduce risk during the feasibility study phase of projects, and can allocate funding for training in connection with project establishment.

However, Norway’s most important instrument for promoting investment in developing countries is Norfund. Its purpose is to establish sustainable, profitable businesses which would otherwise not be established because of the high risk involved. Norfund recognises that energy shortages are an important barrier to economic and social development in developing countries. This is why one of its main investment areas is renewable energy, and why Norfund in cooperation with Statkraft established SN Power and its subsidiary Agua Imara.

Companies that receive support from GIEK, Norad and Norfund must undertake to comply with international guidelines for transparency and corporate social responsibility.

Norfund’s activities within the Norwegian framework

Norfund has been authorised to make limited use of offshore financial centres/tax havens to manage project risk. As mentioned previously, many investors use a similar strategy to ensure the competitiveness of investments in certain poor countries, and this is also why Norfund has been authorised to follow the same practice. Since some offshore financial centres/tax havens

also facilitate tax evasion and function as intermediaries for funds of criminal origin, Norfund has to follow strict rules. It is currently required to refrain from using financial centres outside the OECD with which Norway does not have taxation or information exchange agreements. If Norfund plays a leading role in the establishment of a fund, the jurisdiction is moved to the OECD. As a result of these restrictions, Norfund has invested less in funds in Africa than planned and has to a larger extent granted loans. As part of Norway's efforts to combat illicit financial flows, Norfund is also urging sister organisations in the Association of European Development Finance Institutions to follow a restrictive practice as regards investments through offshore financial centres.

6.2 Taxation and offshore financial centres/tax havens

Companies that establish themselves in offshore financial centres/tax havens generally pay no tax or a low rate of tax and only a modest fee. However, the fees are an important source of revenue for the jurisdictions and countries in question, where there are large numbers of company establishments every year. As mentioned earlier, risk management is one reason for this. Financial secrecy is another. Many offshore financial centres/tax havens can also be used for tax evasion and to hide the proceeds of criminal activities such as corruption, embezzlement and drug and human trafficking.

It will always be profitable for multinational corporations to shift earnings from countries with high tax rates to those where taxation is lower. One way of doing this is to conduct transactions within the corporation at prices that deviate considerably from market prices. In a multilateral corporation with a large number of subsidiaries that exchange goods, services and money, some of the subsidiaries are often in offshore financial centres/tax havens. This can make it difficult for the taxation authorities in the country where the corporation has its headquarters to gain a complete overview of the corporation's income and profits in each country. This is the case even in countries like Norway, which have a well organised tax administration with ample resources, and the problems are much greater in countries with inadequate resources and expertise. Nevertheless, the fact that oil and gas companies have invested heavily on the Norwegian continental shelf, where tax rates are high, demonstrates that these companies have a high tolerance for taxation, and that this is related to the prospects of making a profit. There is therefore reason to believe that they will also invest in developing countries even without advantages such as taxation agreements with offshore financial centres/tax havens.

Conditions that apply to investment via offshore financial centres/tax havens

It is not illegal for Norwegian energy companies or others to use offshore financial centres/tax havens to manage risk or reduce tax exposure. However, Norwegian policy documents such as the white paper on corporate social responsibility make it quite clear that companies are expected to contribute to social and economic well-being in the countries in which they operate. More and more companies also consider it an important element of their public relations work to ensure that they are perceived as socially responsible.

Norwegian accounting legislation requires financial statements and annual reports to give a fair presentation of the company or corporation's activities. Annual reports must also give an account of action on the working environment, accidents and injuries, gender equality, discrimination and environmental issues. There is no general requirement for financial reporting on a country-by-country basis for the overseas activities of multinational corporations. However, the rules for segment reporting in international accounting standards, which apply to Norwegian listed companies, require the presentation of operations in different geographical segments at the level of detail necessary for the accounts to give a fair

presentation. Depending on the circumstances, geographical segments may be countries such as the US or regions such as Africa.

Norwegian and international civil society organisations such as Publish What You Pay and the Tax Justice Network consider that Norwegian accounting legislation should include more specific requirements for financial reporting on a country-by-country basis. The Norwegian authorities are considering a proposal from the European Commission for a consolidated Accounting Directive, which includes rules on country-by-country reporting. If the proposal is adopted, all large undertakings and listed companies in the extractive and forestry industries will be required to publish separate annual reports detailing payments to the authorities in each of the countries in which they operate, including royalties and licence fees, and whether payments have been attributed to specific projects. These rules are intended to make governments of the countries where these companies operate accountable for the use of revenues from their natural resources and to promote good governance.

The Norwegian authorities are advocating EU rules for country-by-country reporting that are as sound and robust as possible but that do not put an unnecessary administrative burden on businesses. The Norwegian authorities have communicated their positions on the proposed requirements to the EU. They have for example indicated that the reporting requirements should to a greater degree ensure transparency as regards extractive industries, and be designed to reveal any tax evasion and identify revenues from the extraction of natural resources.

The Norwegian authorities are seeking to have requirements for country-by-country accounting introduced throughout the EEA as soon as possible. Norway’s aim is to make such requirements effective from 1 January 2014 even if they are not brought into force in the EU until a later date.

The aim of the dialogue project Capital for Development has been to contribute to discussions on, increase knowledge of and promote a common understanding of the different financial flows in and out of poor countries and their importance for development and the fight against poverty. The project has been an important tool for the Government, both nationally and internationally, when putting forward Norway's views on the responsible use of offshore financial centres/tax havens and the fight against illicit financial flows.

Taxation system that benefits developing countries

Under Norwegian tax law, companies that are registered in Norway must pay tax there, and this includes tax on their foreign investments. To avoid double taxation, companies that also pay tax on their foreign investments to the host country may claim deductions for these expenses from the tax imposed by the Norwegian authorities. However, the total tax on operations abroad will be at least as high as if all the tax due was calculated on the basis of Norwegian taxation rules. This system, which is known as the credit method, applies generally to foreign investment by Norwegian companies and thus also to Norwegian energy companies.

This system does not function as a direct tax incentive from Norway for companies that are interested in investing in developing countries. However, one result may be that Norwegian investors are more willing to pay tax in developing countries than investors from countries that do not have similar rules in their tax legislation or in taxation agreements that prevent double taxation of income.

In cases where host countries deliberately use "tax holidays" to attract investment, the Norwegian rules may mean that companies whose headquarters are in Norway must pay tax that they would have avoided if they were registered in a country that does not have rules of this kind. There have been cases where multinational corporations (not energy companies) have for this reason considered moving their main base for certain large-scale investments in developing countries out of Norway, for example to Sweden.

These taxation rules apply to the energy sector as well, but were not designed specifically for this sector. The 2013 budget included a proposal to exempt income from petroleum extraction abroad from taxation. This also meant that it would no longer be possible to deduct costs and losses relating to such income from taxable income. These proposals were intended to ensure that the tax system does not subsidise petroleum extraction abroad. The proposal has now been adopted by the Storting.

The Commitment to Development Index judges Norway's taxation policy to be favourable for investments in developing countries

The Tax for Development programme

Aid will continue to be an important source of revenue for many poor countries for a long time to come. However, in the long term all countries need to finance their development through their own revenues. Some of Norway's experience in developing sound taxation systems and an effective tax administration is relevant in other contexts and a valuable reference point when working with partner countries on their taxation systems.

The Tax for Development programme is funded over the aid budget and mainly targets countries in Africa. It is intended to encourage the development of tax systems with fewer arbitrary tax exemptions and advantages for individuals and individual companies, so that tax revenues increase and the system is more predictable. It offers assistance with capacity building and knowledge generation and dissemination, and provides funds for information for civil society and the promotion of international cooperation on taxation.

The programme is also intended to increase transparency regarding the use of taxation revenue and who pays tax, and to provide the general population with a better basis for assessing how fairly the taxation system is organised. An open debate on taxation issues may encourage political engagement and promote a better distribution policy in many countries.

A research programme related to tax havens and developing countries has also been established.

6.3 Financial irregularities

Corruption, tax evasion and lack of transparency constitute a global problem that is found in many countries and in all sectors. Developing countries with weak administrations are particularly vulnerable. Moreover, countries that depend on revenues from energy and other natural resources are often affected by what is known as the resource curse. This refers to a situation where resource-rich countries end up with lower growth rates than countries without such resources. Often financial irregularities are a factor in the resource curse. So too is "Dutch disease", where a country's expenditure is too high in relation to its revenues once production falls. Ensuring transparency as regards the management of resources is one way of avoiding these problems.

In order to avoid the resource curse and manage the contractual, legal and financial aspects of exploitation of natural resources, a country needs an adequate legal framework and a good

system for financial management. Corruption is often endemic in countries with weak administrations and legislation. This is a poor starting point for sound management of sudden, large revenues from natural resource exploitation.

In their dealings with international companies, developing countries often lack the capacity to negotiate favourable agreements on the distribution of revenues from resource exploitation. They often underestimate the companies' willingness to invest, as can be seen from the agreements negotiated. These often include tax agreements with offshore financial centres/tax havens, resulting in lower revenues for the country than would otherwise be the case. Weak agreements make it easier to transfer any revenues siphoned off by corrupt officials, politicians and others out of the country. They also make it easier for multinational extractive companies to evade tax in countries where they have their headquarters, for example through abusive transfer pricing.

Norwegian rules and framework

Norway has ratified the UN Convention against Corruption, the OECD Anti-Bribery Convention and the Council of Europe Criminal Law Convention on Corruption. New provisions have been incorporated into the Norwegian Penal Code that prohibit Norwegian companies from any involvement in corruption, whether in Norway or abroad. The top executives of companies based in Norway are responsible for ensuring that their company is not involved in any corrupt activities.

The Convention against Corruption also covers the tracing, seizure and recovery of proceeds of crime. The UN Office on Drugs and Crime and the World Bank's Stolen Asset Recovery Initiative are also engaged in asset recovery efforts. This work is important in combating the embezzlement of revenue from the extractive industry that should have been paid into national treasuries.

Norway has a clear policy on corruption. Active efforts to combat corruption are in the best interests of the business sector both in Norway and in other countries. The more cases that are brought to light, and the more people who are engaged in fighting corruption, the more equitable the conditions for international investment will be. Norwegian companies with operations in countries where corruption is widespread are therefore expected to play an active part in anti-corruption efforts.

Norway's aid-funded Oil for Development programme shares experience and expertise that can help developing countries to develop legislation, establish routines and build institutions that not only improve resource management in general, but also promote transparency regarding revenue from the petroleum industry and increase the accountability of the institutions in this sector.

The response of Norwegian companies to financial irregularities

There have also been cases where Norwegian companies have been involved in corruption. Corruption is by nature a furtive activity, and the true extent of Norwegian companies' involvement is not known. However, Transparency International's Corruption Perceptions Index for 2012 ranks Norway as the seventh least corrupt of the 176 countries evaluated. This suggests that corruption is relatively rare in Norway. In the cases that have been discovered, the companies concerned have cooperated with the authorities, and have been quick to address the problem and take action to prevent a recurrence.

6.4 Corporate social responsibility

Multinational energy companies operating in developing countries often face particular

challenges in relation to corporate social responsibility (CSR), for example relating to the use of local labour for the extraction of oil and gas, or in connection with the development of hydropower resources or other energy projects.

Low production costs in developing countries can attract investments from multinational companies that produce goods that do not require a skilled workforce or companies that are interested in minimising payroll costs and the costs associated with environmental and climate measures. Working conditions are generally poorer for workers in developing countries and pay levels lower than in more developed countries. Different companies have different policies regarding the treatment of employees and environmental concerns. However, it is not unusual for companies in developing countries to have dangerous working conditions, employ child labour, and release relatively large quantities of pollutants.

Moreover, many developing countries do not have adequate legislation relating to harmful impacts on the climate system and environment, and they also tend to lack the capacity to enforce national and international rules. The use of subcontractors can also make it difficult for an otherwise responsible company to maintain an overview of the conditions under which all the components of the end product have been produced – and of course certain companies are ready to take advantage of weak legislation. Civil society organisations in Norway and other countries have demanded that companies must obtain more information and exert a stronger influence on working conditions down through the value chain.

The Norwegian political framework

The Government's position on CSR, as set out in the white paper *Corporate Social Responsibility in a Global Economy,*[4] is that "CSR involves companies integrating social and environmental concerns into their day-to-day operations, as well as in their dealings with stakeholders". CSR includes what companies do on a voluntary basis beyond complying with existing legislation and rules in the country in which they are operating.

The activities of national and multinational companies that have their headquarters in Norway are strictly regulated to prevent unhealthy working conditions, subsistence wages and environmental degradation. Norwegian companies that establish operations abroad are not *obliged* to follow specific CSR standards. However, those that receive support from Norwegian grant schemes or are in contact with Norwegian advisory bodies are informed of the authorities' views on CSR, and advised to, and in some cases required to, comply with the standards used by these bodies, which are described in the CSR white paper and other documents. Companies that engage in clearly unethical practices will not receive support under the schemes managed by these bodies. The white paper also highlights the importance of the OECD Guidelines for Multinational Enterprises and the UN's Global Compact, which many companies adhere to.

Although Norwegian companies with operations abroad are not obliged to follow specific CSR standards, both politicians and the general public in Norway expect them to maintain high standards of CSR performance. This includes any subsidiaries they may have established and any joint ventures they may be engaged in abroad. We see that companies are becoming increasingly aware that the way they deal with CSR-related issues has consequences for their reputation.

There are clear expectations relating to the performance of Norwegian companies that are wholly or partially state-owned, as set out in the 2011 white paper on state ownership. These are largely based on the CSR white paper.

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[4] Report No. 10 (2008–2009) to the Storting

Innovation Norway also assists Norwegian companies to develop their CSR practices. Based on a global platform it supports initiatives like the UN Global Compact. Innovation Norway encourages Norwegian businesses to give particular weight to environmental considerations, ethical guidelines and imports from low-cost countries.

The CSR white paper points out that it is difficult to identify legal instruments that can promote greater corporate awareness. It suggests that other instruments, such as public opinion and consumer pressure, combined with measures to raise the awareness of employees and management in individual companies, may well be most effective. However, it also points out that legal instruments can be useful in bringing a company's activities to the public eye. This was why the Government announced in the white paper that it intended to hold consultations on proposals to introduce requirements for the largest companies that have a statutory obligation to maintain accounting records to state which ethical guidelines or CSR standards they follow, and how they have performed in relation to these during the accounting year. These requirements would be additional to the current requirements for reporting on the working environment, accidents and injuries, gender equality, discrimination and environmental issues for companies and their subsidiaries in Norway and other countries. Companies that do not have such guidelines would be obliged to disclose this fact. Consultations have now been held on these proposals, and the Government aims to submit the bill to the Storting in the autumn of 2012.

An inter-ministerial working group has been established to follow up the Government's CSR policy. Matters relating to CSR are also dealt with by the Government's consultative body on matters relating to CSR, KOMpakt. In connection with its ownership role, the Government is engaged in an on-going dialogue on CSR with state-owned companies.

Companies' own CSR regimes

According to the information presented by the major investors in energy activities abroad, they are aware of their social responsibility and base their operations on concrete ethical norms. Some report that they follow international standards and guidelines, including those drawn up by ILO, the UN, the OECD and the International Finance Corporation (IFC), or ISO 26000. Some refer to specific investments abroad and report on their CSR activities in connection with these; others refer to the company's norms in more general terms.

It has not been possible during the preparation of this report to ascertain how closely such assertions match actual practice. It does seem, however, that Norwegian companies generally draw up and use CSR guidelines, in line with the recommendations of the CSR white paper. The Norwegian authorities expect every aspect of companies' CSR work to be based on best practice.

Developments within the field of CSR

Some civil society organisations maintain that multinational companies should be required to provide information on their activities aggregated at country level in their financial statements. At present, country-by-country reporting is not required under Norwegian or EU law, nor are there any requirements for companies to identify payments to the authorities in the countries where they operate. As was mentioned earlier in this chapter, such requirements may be introduced in Norway in connection with the consolidated Accounting Directive proposed by the European Commission, which includes rules on country-by-country reporting.

A number of civil society organisations have repeatedly called for the appointment of an ethics ombudsman for the business sector. With this in view, the Government decided to strengthen the Norwegian National Contact Point for the OECD Guidelines for Multinational

Enterprises. A new OECD National Contact Point (NCP) with its own secretariat was established on 1 March 2011. The reorganised NCP Norway has since dealt with four cases of alleged ethical bad practice on the part of Norwegian companies operating abroad. One was resolved through mediation, in another case the NCP sharply criticised the company concerned, and two cases were dismissed because they did not come under the NCP's mandate. The NCP considers cases on an independent basis.

One of the difficulties investors meet when considering companies' CSR performance is the lack of universally agreed standards for CSR reporting, which has resulted in the rapid development of a variety of different reporting systems by private-sector companies. This makes it more complicated to compare how CSR issues are dealt with in the different companies and to assess what they have achieved.

The commission that drew up the Official Norwegian Report *Coherent for Development?* (NOU 2008:14) recommended the introduction of a statutory standard for reporting by Norwegian multinational enterprises on social and environmental indicators, and proposed the Global Reporting Initiative (GRI) standard as an appropriate framework for such reports.

The UN Global Compact, the OECD Guidelines for Multinational Enterprises and the OECD Guidelines for Corporate Governance, the IFC's Performance Standards on Environmental and Social Sustainability, and the Global Reporting Initiative (GRI) standard are some of the initiatives and guidelines that are helping to standardise CSR reporting. Norway was at the forefront of the efforts in the UN that culminated in the adoption of the Guiding Principles on Business and Human Rights in the UN Human Rights Council in 2011. An ISO standard on social responsibility has also been adopted, based on ILO, UN and OECD standards. However, a good deal remains to be done before an internationally accepted standard for CSR reporting is adopted.

Companies' greenhouse gas emissions in developing countries are an important issue, and there are often difficulties related to the measurement and verification of these emissions. A number of investors, including member affiliates of the European Sustainable Investment Forum, have suggested stricter rules for environmental reporting to include the whole supply chain. The Carbon Disclosure Project, which invites companies to report their climate change data, has already established a supply chain programme.

In Norway, management plans for various sectors, resources and industries have proved to be effective tools for integrating measures to address environmental problems and climate change throughout the value chain. This is particularly relevant in the energy sector. Examples include the master plan for water resources, which applies to river systems, and the integrated management plans for Norway's sea areas, where petroleum production is either planned or underway. These plans are used both to safeguard the environment and to facilitate value creation. Under the Nature Diversity Act, cumulative environmental effects must be assessed and environmentally sound techniques and methods of operation must be used in all projects, including the construction of power plants. Instruments such as those described here have been developed because there have been a number of cases where failure to take environmental concerns into account when establishing activities has made it necessary to take costly action to mitigate damage at a later stage, in cases where this is possible.

Management plans and relevant legislation are instruments that, in the form that they take in Norway, require a well-functioning administrative system, but that, in other forms, can also provide valuable frameworks in developing countries. This is why assistance in developing these instruments is included in the Oil for Development programme, in bilateral environmental cooperation and other aid-financed governance and management initiatives.

The Government has strengthened the OECD National Contact Point Norway by providing additional resources and making it into an independent panel of experts along the lines of the Council on Ethics for the Government Pension Fund Global. The OECD Guidelines are the most up-to-date guidelines in this field, and have been negotiated by 44 states. They cover the whole range of CSR issues, from corruption and human rights to environment, transparency and competitiveness, and refer to all the standards mentioned earlier. It is therefore natural that further efforts to standardise CSR guidelines are based on the OECD Guidelines.

6.5 State ownership

Activities of partially and wholly state-owned Norwegian companies in developing countries

The principles governing Norway's state ownership policy are set out in the 2011 white paper on state ownership,[5] which states that state-owned companies are to promote the creation of decent and secure jobs, boost tax revenues, enhance value creation and maintain long-term profitability. The Government will also monitor the CSR performance of state-owned companies.

Although state ownership in itself is not designed to promote the achievement of development policy goals, many state-owned companies also operate in developing countries. They therefore have the potential to contribute to business development as well as to social progress.

Statkraft and Statoil are two state-owned energy companies that invest in a number of countries worldwide, including developing countries. They are run on commercial principles, and their main objectives are industrial development and providing a return for their shareholders. However, the state as owner sets clear requirements for how companies practise CSR. This is also an important aspect of the commercial development of these companies.

Moreover, the Government has established companies and institutions whose main purpose is to make development-friendly investments. Norfund, the largest of these, has a particular focus on the energy sector, but Norad also plays an important role in this area. Statkraft and a number of municipal and county power companies see a potential for high earnings from investments in developing countries and, together with Norfund and through SN Power, are contributing to the development of power production in developing countries.

The Government Pension Fund Global has small ownership interests in a number of energy companies. The Fund is discussed below in the next section of this chapter.

State ownership and corporate social responsibility

The 2011 white paper on state ownership sets out a number of expectations concerning companies' CSR practices both in Norway and abroad. For partially or wholly state-owned companies, they are as follows:

- companies are expected to be at the forefront of CSR work in the fields in which they operate, to actively pursue sound business practices and to contribute to the development of such practices in these fields;
- companies are expected to have ethical guidelines in place and make them publicly available;
- companies are expected to draw up guidelines for their CSR efforts and make them

[5] Meld. St. 13 (2010-2011)

publicly available;

- companies with international operations are expected to join the UN Global Compact and companies with international supply chains should also consider doing so;
- companies with international operations or international supply chains are expected to familiarise themselves with and follow the OECD Guidelines for Multinational Enterprises;
- companies with international operations or international supply chains are expected to base their operations on the eight ILO core conventions;
- companies are expected to develop key performance indicators for their CSR efforts, in dialogue with key partners;
- companies are expected to report on their CSR efforts, including major challenges, targets and performance indicators. Larger companies are expected to make use of the internationally recognised Global Reporting Initiative (GRI) standard as a framework for their reports;
- company boards are expected to take responsibility for CSR efforts and their annual reports should include a discussion of key CSR issues;
- companies are expected to have sound whistle-blowing systems.

The white paper lists further expectations for this group of companies in related fields:

- companies with international operations are expected to integrate human rights issues, as set out in international conventions into their CSR guidelines;
- companies with international operations are expected to integrate issues related to workers' rights into their CSR guidelines;
- companies are expected to integrate anti-corruption efforts into their CSR guidelines;
- companies are expected to be at the forefront as regards health, safety and environment (HSE) activities. This also applies to their international operations, and similar HSE requirements should apply to their suppliers and business partners.

6.6 The Government Pension Fund Global

The Government Pension Fund Global is one of the world's largest sovereign wealth funds, and its management is monitored closely. It is based on the principle that in the long term, good returns can only be achieved where development is sustainable in economic, environmental and social terms, and where markets are well-functioning, legitimate and efficient.

Internationally, this was one of the first funds to include ethical, environmental and social considerations in its management regime.

Criticisms raised against the Fund by civil society organisations and others often relates to claims that companies in which the Fund has invested undertake shady transactions or carry out activities that violate ethical norms. It has also been suggested that more of the Fund's assets should be invested in poor countries.

Investments in emerging markets

The management of the GPFG is designed to achieve the greatest possible international purchasing power for the Fund's capital over time, subject to a moderate risk level. The Ministry of Finance has delegated the management of the Fund to Norges Bank.

The Fund is not an instrument for promoting government investment in developing countries. Nevertheless, the Fund's level of investment in emerging markets is considerable. Norges Bank manages the Fund on the basis of a benchmark index that is determined by the Ministry of Finance. Emerging markets were included in the benchmark index for equity investments for the first time in 2000. Since 2008, the index has included the listed equity markets in all the countries classified as emerging economies by the FTSE index. At the end of 2011, these included Argentina, Brazil, Chile, China, Colombia, the Czech Republic, Egypt, Hungary, India, Indonesia, Malaysia, Mexico, Morocco, Pakistan, Peru, the Philippines, Poland, Russia, South Africa, Taiwan, Thailand, Turkey and the United Arab Emirates. These markets accounted for around 9 % of the value of the Fund's equity portfolio. Norges Bank can also invest in shares in other countries, but only if they are listed shares.

Many of the poorest countries have no markets for listed equity at all. Investments in such countries must necessarily be in the form of unlisted investments, such as private equity or infrastructure projects. If and when unlisted investments are permitted for the Fund on a general basis, it would be logical to consider simultaneously or gradually expanding investments to less developed markets.

The changes to the benchmark indices for equity investments and fixed income set out in the 2011 white paper on the Management of the Government Pension Fund[6] involve an increase in the proportion of emerging markets in the indices. Market value weighting will be used for the equity markets in emerging countries in the equity benchmark. Likewise, government bonds with a high credit rating in emerging markets are to be included in the fixed income benchmark index. On the basis of the size of these markets at the start of 2012, the changes mean that emerging markets will account for around 10 % of the Fund's equity and fixed income benchmarks, compared with the previous figure of around 6 %.

Responsible investment

In 2004, the Ministry of Finance drew up ethical guidelines for the GPFG on the basis of the recommendations of a government-appointed committee. In 2009, the Ministry reviewed these guidelines, which led to the development of a more comprehensive strategy for responsible investment. This was found to be in line with international developments in this field. In 2010, the guidelines from 2004 were replaced by a new mandate for the management of the Fund containing a separate chapter on responsible investment, together with new guidelines for the observation and exclusion of companies.

The work on responsible investment covers five main areas:

- international cooperation and contribution to the development of best practices;
- environment-related investments;
- research and analysis;
- active ownership;
- observation and exclusion of companies.

As owner of the Government Pension Fund Global, the Ministry of Finance is responsible for determining the overall strategy for responsible investment. It is also the Ministry of Finance

[6] Meld. St. 17 (2011–2012)

that, in consultation with the Council on Ethics, decides whether a company is to be excluded or put on the observation list.

Norges Bank has been assigned to manage the Fund on the basis of a mandate from the Ministry of Finance. This mandate includes responsibility for exercising the Fund's ownership rights in the around 8 000 companies its assets are invested in. The Bank's primary goal in its active ownership is to safeguard the Fund's financial interests. However, this work also entails influencing the companies concerned to improve their practices and conduct. Norges Bank cooperates with other investors and international organisations with a view to creating better company practices at international level, with a particular focus on climate change, water management and children's rights.

In 2009, an environment-related investment programme was introduced. These investments are made under the same regulatory framework as governs the Fund's other investments in equities and fixed income instruments, and form part of the active management activities of Norges Bank. They normally amount to between NOK 20 billion and 30 billion. At the end of 2011, ten environment-related mandates had been drawn up, seven of which were for investments in renewable energy and technology for improving energy efficiency and three for investments in water management.

The Ministry of Finance, Norges Bank and the Council on Ethics are all engaged in cooperation with other actors, and contribute to research and development of best practices within their areas. For example, in 2011 the Ministry of Finance, together with other major investors, took part in an international research project on the long-term consequences of climate change for global capital markets.

The Fund is to be at the top of the league table in terms of ethical standards and performance in relation to climate change. However it is not an instrument that can be used to meet every type of objective, nor can it be used as a foreign policy instrument. The Norwegian authorities have other instruments at their disposal that will be more appropriate and more effective for promoting certain objectives than the guidelines for investing the Fund's assets.

6.7 Aid-funded incentives and initiatives in the energy sector

Norway has significant expertise in oil and gas production, and Norwegian companies invest in these sectors worldwide. These investments help developing countries to exploit their own resources and secure revenues that can benefit the population, and they boost global energy supplies. As a result of Norway's engagement, Norwegian companies' expertise in minimising environmental damage also benefits other countries. Norway has also developed expertise over many decades in the development and use of renewable energy – in particular hydropower. This expertise can be used to increase the supply of energy and promote a low-emission path of development.

Norway has established various schemes for promoting renewable energy development. Norfund, SN Power and Agua Imara are among the leading companies with investments in the renewable energy industry in developing countries. In 2011 these companies invested more than NOK 6 billion in renewable energy projects in Africa, Asia and Latin America. Norfund usually sells its investments in such projects once they are up and running, and then ploughs the funds back into new projects, whereas SN Power and Agua Amara are more long-term investors.

Norad's support schemes for private sector development are targeted towards the early phase of project development and cover costs associated with finding partners and carrying out feasibility studies. It also supports training in connection with project establishment,

infrastructure investment and CSR work. These small-scale grants are particularly useful for small companies, for example in the hydropower or wind power industries, that are seeking to establish activities in developing countries.

Norfund provides funding for major renewable energy development projects in cooperation with similar investment companies in other countries and with the World Bank, the International Finance Corporation (IFC), the Global Energy Efficiency and Renewable Energy Fund (GEEREF) and others, contributing to funding packages that are worth many times more than the capital Norfund itself provides.

In 2011, the Norwegian Government launched the International Energy and Climate Initiative – Energy+, which aims to increase access to modern energy services, limit greenhouse gas emissions in developing countries and promote energy efficiency. The Energy+ initiative has been given a role in the UN Sustainable Energy for All Initiative, the objectives of which are to ensure universal access to universal modern energy services, double the share of renewable energy in the global energy mix and double the global rate of improvement in energy efficiency by 2030. Energy+ was established as a two-year pilot project. In 2013 an evaluation will be carried out of its results so far, expectations for the future and whether or not it should be continued.

In the Energy+ initiative, the Government is taking a coherent approach to development policy and climate policy with a view to increasing access to energy services and at the same time limiting greenhouse gas emissions from the energy sector in developing countries. The initiative draws on lessons learned from Norway's International Climate and Forest Initiative. It is using and continuing to develop a performance-based approach to financing in the energy sector. Based on reference emission levels for the energy sector, developing countries will receive payment for reductions in greenhouse gas emissions and increased access to sustainable energy services. This will encourage private and commercial investments and stimulate the restructuring of energy policy along an emissions path that will make it possible to achieve the two-degree target.

Public-private partnerships for funding renewable energy and energy efficiency projects will be a key element of the sustainable development agenda of the Rio+20 process. By developing financing models as part of the Energy+ initiative, Norway will be contributing to the development of climate- and energy-related sustainable development and development targets and to the achievement of key UN objectives by 2030. If the goal of securing universal access to energy is to be achieved, the private sector needs to be given stronger incentives to invest in renewable energy in developing countries.

Kenya, Ethiopia, Liberia and Bhutan are four of the countries that are being included in the pilot phase of Energy+. By July 2012, 40 countries and organisations had expressed an interest in joining the Energy+ Partnership. They include the UK, France, the World Bank, the United Nations Development Programme (UNDP), the United Nations Environment Programme (UNEP) and the International Energy Agency (IEA).

At the Rio summit in June 2012, Norway signed agreements with Ethiopia on energy cooperation amounting to NOK 500 million. Letters of intent were also signed with Kenya and Liberia. All the bilateral agreements that have been entered into will continue beyond the Energy+ pilot phase.

7. CASE STUDY – ANGOLA

Background information

Angola has approximately 19 million inhabitants (2010). It is still suffering from the after-effects of the 27-year-long civil war that ended in 2002, and reconstruction of damaged infrastructure is a priority. In 2010 its per capita gross domestic product (GDP) was estimated at USD 4 443. This is low in comparison with rich countries, but significantly higher than in most countries in sub-Saharan Africa. Angola is still classified as one of the world's least developed countries.

Angola is Africa's second largest oil producer and is a member of OPEC. Oil and gas production account for more than 90 % of the country's revenue and the Angolan continental shelf is believed to contain significant untapped petroleum reserves. Angola is a major supplier to both the US and China. Facilities for the production of liquefied natural gas (LNG) are currently being established.

Angola also has considerable potential in the area of renewable energy production; its hydropower potential is approximately 18 000 MW, of which less than 1 000 MW has been developed. Only about 30 % of the urban population, or about 10 % of the country's overall population, has access to electricity. Angola's population is facing the same challenges as people in other countries where access to electricity is so limited. Moreover, in Angola, as in Norway, costs are high, driven by the petroleum sector, which reduces competitiveness and hampers recruitment in other sectors. This is a particular problem in a country where many people are poor and out of work. The further development of renewable energy combined with an equitable distribution policy that focuses on education and health could create significant opportunities for social and business development.

Angola is also facing challenging governance issues. In Transparency International's Corruption Perceptions Index from 2012, it is ranked 157 of 176 countries. It also scores low on the 2011 UNDP Human Development Index (where it is ranked 148 of 187 countries). Rankings compiled by various other organisations show that Angola also scores low in areas such as independence of the judiciary, law enforcement, budget transparency, control of corruption and freedom of the press.

Aid accounts for only about 0.35 % of gross national income (GNI). This figure is low compared with other developing countries. However, the legacy of colonial rule, which did little to educate the local population, has meant that technical assistance is badly needed. Norwegian investments in Angola are therefore supplemented by technical assistance in the fields of energy, good governance, economic development and trade, education and environment. Angola is a pilot country for Norway's efforts to support gender equality.

Norwegian companies in Angola

Statoil is the largest Norwegian company operating in Angola and has been there for almost 20 years. In 2011, Statoil was for the first time awarded operatorship in two blocks with an ownership interest of 40 %, as well as partnership in a further three blocks with relatively large ownership interests. Statoil's current share of production is about 200 000 barrels a day, which is roughly 10 % of Angola's total production and as much as 37 % of Statoil's oil production outside Norway. The award of the operatorship to Statoil marked the beginning of a new era for the company in Angola, with Statoil having greater responsibility and control. Thus, Statoil has increased its Angolan "footprint" and will have greater social responsibility in the country.

In addition to Statoil, a number of companies from the Norwegian supplier industry have established themselves in the country. Det Norske Veritas and Aker Solutions are among the major companies operating in Angola. There are also between 10 and 15 other companies whose annual direct investments and sales related to activities on the Angolan continental shelf amount to around NOK 10 billion. The level of activity is expected to increase.

In November 2011, the Norwegian Minister of Trade and Industry and the Minister of Environment and International Development visited Africa accompanied by a business delegation to highlight opportunities for Norwegian companies, for example in Angola. The focus of the visit was on oil- and gas-related activities, renewable energy, corporate social responsibility, and trade and investment.

The Angolan authorities attach importance to developing their own petroleum industry (in a process known as "Angolanisation"), and foreign partners are required to support this process. For example, the plan is to develop the state-owned petroleum company Sonangol into a fully-fledged multinational corporation by strengthening its commercial activities and scaling down other roles, such as regulation and the awarding of licences.

Spin-off effects and transparency

During the period 2006–09, the value of Statoil's oil production in Angola was around NOK 125 billion. Two-thirds of this was transferred back to Angola either in the form of direct taxes or in the form of oil under Statoil's production sharing agreement with Sonangol. The rest was recorded in Statoil's books. Some NOK 7–8 billion of Statoil's share of the profits is reinvested annually in upgrading and maintenance of fields that are on stream. Investments by Statoil or other companies that lead to the discovery of commercially viable deposits of oil and gas are refunded, whereas signature bonuses, which are required for the right to develop an exploration area, are non-refundable one-off payments. In total, Statoil has invested approximately NOK 40 billion in Angola.

The Angolan continental shelf offers great opportunities for the Norwegian supplier and service industry. A number of important Norwegian companies are involved. Aker Solutions and FMC Technologies account for most of the deliveries of underwater equipment to several of the large fields that are currently under development. Both companies have made significant investments in their facilities at the Sonils (Sonangol Integrated Logistic Services) base in Luanda, where they each have three to four hundred employees, of whom some 75 % are Angolans. Companies do not usually need to invest heavily in facilities in Angola, but must employ Angolan labour to fulfil the country's "Angolanisation" requirements.

The situation in Angola is similar to that of other resource-rich countries in Africa; Angola's importance as an oil and gas producer is growing, the country is attracting a significant number of foreign operators and the prospects for substantial revenues to the state are good. However, Angola, like other African countries, faces challenges in terms of how it manages its strategic resources. Governance is inadequate, as is the country's distribution policy. The public administration does not have sufficient expertise to safeguard the authorities' interests vis-à-vis the oil industry. The Norwegian Oil for Development programme is important in this context and is attracting increasing interest. There is also considerable interest in political advice from Norway, whose own development is perceived as a success story.

The Oil for Development programme contributes to competence-building, while Norwegian companies' CSR programmes and activities also promote economic and social development. In connection with these programmes, companies have to address environmental issues, human rights issues, issues relating to the Decent Work Agenda and not least issues relating to corruption and conflicts of interest. In addition they are expected to make contributions that

directly benefit the local population. Experience from Angola shows that Norwegian companies deal with all these issues effectively.

“Angolanisation” of the oil sector is an important task that poses considerable challenges. In particular, Angolan staff needs to be trained to replace the well-qualified foreign workforce. It is also important that goods and services are purchased locally as far as possible. The Angolan industrial sector is poorly developed and there is a lack of qualified workers in several areas. Norway supports a number of training programmes in Angola involving various Norwegian actors, including the Rogaland Training and Education Centre. These include training programmes at Angola’s National Petroleum Institute in Sumbe, where various Norwegian companies are involved under the auspices of Norwegian Oil and Gas Partners (INTSOK). Norway will also assist in increasing training capacity for engineers. Angola has begun in earnest to consider environmental threats and climate change, and has become interested in clean energy and energy efficiency measures. At the same time there is increasing awareness of the possibility of pollution from the oil industry, in particular the impacts it could have on the fishing industry.

Contribution to development

There is a substantial level of Norwegian business activity in Angola, particularly in the oil and gas sector, where Norway has considerable expertise. Given that Norwegian companies are required to meet strict standards for acceptable business practices, their presence is in itself a positive development in a country where there has been a lack of transparency combined with inappropriate relationships in the business sector. Like Norway, Angola is seeking to develop its oil resources. It therefore makes sense for the Norwegian Government to support business activity in this field, where Norway can offer both experience and expertise. The transfer of Norwegian expertise through the Oil for Development programme further reinforces this argument. However, there are limits to what Norway can do. Information about the Norwegian model for the oil industry can be provided, but it must be realised that Norway neither can nor should try to prescribe the same solutions for Angola.

The oil sector in Africa is developing rapidly and Norway is well placed to participate. However, Norway is providing strategic advice to countries with large petroleum resources, based on its own experience of developing and managing such resources. This means that there may be conflicts of interest, a possibility that has been discussed both in Norway and internationally. The Government takes such views and assessments seriously, but believes that Norway is able to keep its national interests separate from the interests of the host country. For example, the Oil for Development programme is partly administered by Norad and kept separate from the services provided by the diplomatic and consular missions to Norwegian companies. Nevertheless, the fact that Norway has such significant economic interests in countries where governance is weak and where there continue to be considerable challenges in terms of transparency and corruption could also pose a risk both to Norway’s reputation and to the reputation of the companies involved. The same applies to environmental impacts; there is a risk of significant oil spills in countries where preparedness and response systems are not as well developed as for example in the North Sea and the Gulf of Mexico.

Published by:
Norwegian Ministry of Foreign Affairs

Print: XXX - 01/2013 - Impression XXXX