

2007

**A PEER REVIEW OF NORWAY'S POLICY
FOR SUSTAINABLE DEVELOPMENT**

REPORT FROM A GROUP CONSISTING OF

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Foreword by Kristin Halvorsen, Norwegian Minister of Finance

In a world challenged by poverty and climate change, working towards a sustainable development is more important than ever. The Norwegian Government has decided to give high priority to this work. An important part of this effort has been to develop a new National strategy for sustainable development. The strategy was published 5 October 2007 as part of our National Budget white paper. The work on the strategy has been coordinated by the Ministry of Finance, as the government finds it important to integrate the work on sustainable development with economic policy and decision-making. There has been broad stakeholder contribution to the strategy, through extensive consultations and hearings with NGOs and government institutions.

As an important input to the strategy, we asked Swedish authorities to contribute to a peer review focusing on institutional issues and our policies on international poverty, climate change and biodiversity. In March 2007, the Swedish peer review team, including an expert from Uganda on the issue of trade policies and development assistance, delivered this report. The report presents solid analyses and concrete suggestions for improvements.

In many areas the suggestions are followed up by the Government:

- An ambitious climate policy plan has been adopted to reduce emissions by 10 per cent compared to our Kyoto commitment, by 30 per cent from 1990 to 2020, and aiming for carbon neutrality in 2050.
- Norway has the goal of halting loss of biological diversity by 2010, and has decided to strengthen the protection of diversity.
- A commission of experts will be established to consider how to better include considerations regarding sustainable development and climate in public decision making processes.
- A new meeting place for consultation and dialogue with stakeholders will be established.

The Government is also following up the strategy in the 2008 National Budget white paper where it is presented. The budget includes:

- Increasing the level of ODA to 0.98 pct. of GNI.
- Giving 14 low-income countries the same tariff- and quota free access to Norwegian markets as is already granted to the least developed countries.
- Giving high priority to the development of carbon capture and storage technology and to other climate change mitigation policies.
- Increasing allocations for management and protection of biological diversity.

We thank the review team for their effort and for their contribution to the development of informed policies.

Oslo, 5 October 2007
Kristin Halvorsen,
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Preface

Twenty years ago, the World Commission for Environment and Development, lead by the former prime minister of Norway Gro Harlem Brundtland, presented its report *Our Common Future*. Today sustainable development engages politicians, researchers, business and citizens around the world. Climate change has emerged as the perhaps most important political question of our time. Norway now prepares a new strategy for sustainable development at a time when both our near history and the future calls for new initiatives.

The new strategy is developed through an open process with contributions from many sides. This *peer review* – a collegial inquiry performed by ”critical friends” – is one such contribution. Based on the authors’ experience from work in Sweden and Uganda, the present report aims to make observations that can be of use in the work with the new Norwegian strategy.

We, the Swedish members of the peer review team, are responsible for the report in a personal capacity. Joseph Enyimu has contributed to chapter 5 and has independently written an annex. The organizations where we are employed have no official role regarding this report.

It has been a new and exciting experience for us to take part in the peer review. We extend our gratitude to Thorvald Moe, Knut Thonstad, Anne Kristin Fosli and Stig Arve Malmedal from the Ministry of Finance; Jan Abrahamsen, Øyvind Lone and Thomas Myhrvold-Hansen from The Ministry of Environment and Jon Heikki Aas from the Ministry of Foreign Affairs in the Norwegian coordinating group that was established for the peer review. Our special acknowledgement goes to Knut Thonstad for holding his hand over the work on the Norwegian side. We also extend our gratitude to the many Norwegian experts and representatives who kindly have shared with us their experience and knowledge.

Stockholm and Kampala, 16 March 2007.

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Abbreviations

ASEAN	Association of South East Asian Nations
GNI	Gross National Income
GDP	Gross Domestic Product
CCS	Carbon Capture and Storage
CBD	Convention for Biological Diversity
CO ₂	Carbon dioxide
DAC (in the OECD)	Development Assistance Committee
EAC	East African Community
EEA	European Economic Area
EU	European Union
UN	United Nations
GBS	General budget support
GHG	Greenhouse gas
HIPC	Highly Indebted Poor Countries Initiative
MDG	Millennium development goals
MiS	Environmental registrations in woods
LDC	Least developed countries
NB	National Budget
NGO	Non-governmental organisation
Norad	Norwegian Agency for Development Cooperation
NORFUND	Norwegian Investment Fund for Developing Countries
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
PEAP	Poverty Eradication Action Plan
PRS	Poverty Reduction Strategy
SADC	Southern African Development Community
SDS	Sustainable Development Strategy

Summary

1. The peer review process

As one element in the extensive process of revising its national strategy for sustainable development, Norway wanted to have a peer review. A point of departure was that the review should be carried out fairly rapidly, in a cost-effective manner and that the procedure should not be a too heavy administrative burden.

In the spring of 2006 the Norwegian Ministry of Finance, which coordinates the government's work on sustainable development, invited Sweden to be a peer. The Swedish Ministry for Sustainable Development accepted this invitation. A project plan was agreed in September 2006. The review was structured in the following parts:

- Design of the strategy (scope, institutions, indicators, follow-up).
- Climate policy.
- Biological diversity (some parts).
- Trade and development assistance.

A peer review group was formed with regard to this selection of topics. The group comprised five public servants from different policy fields who each had relevant practical and theoretical experiences. In addition, Norway wanted a perspective from a developing country, so an economist from Uganda was included in the team to work on trade and development assistance together with one of the Swedish team members.

It can be seen that the scope of the review did not only cover the sustainable development strategy as such but also three substantive policy areas. This in a sense made the review wider in scope compared to the textbook model. On the other hand, there were only two reviewing countries, and most of the topics were covered only by the Swedish peers. Moreover, all the peers were taken from the public administration. This meant that there were no participation from external stakeholders or NGO:s in the review team. These choices meant costs in terms of less variety of perspectives and expertise but benefits in terms of speed and administrative costs.

Since Swedes and Norwegians easily understand each other's languages, all Norwegian policy documents were accessible for the Swedish members of the team without translation. A few brief notes in English on the selected areas were prepared by the Norwegian authorities especially for the peer review. The team could thus base itself on a large source of public documents but also on articles and reports from other domains.

The review process was divided into the following phases:

- Initiating and securing commitment to the process (June 2006)
- Preparing for the review/ Planning phase (August-October)

- Documentation and background information
- Scoping: Determining the extent and the emphasis of the review process
- Determining which actors should be invited to take part in the process
- Undertaking the review (October – March)
 - Initial seminar
 - Peer review seminar (consultation)
 - Drawing up and discussing the report
- Disseminating of the review findings (March)
- Implementation (March – October 2007)

During the autumn the Norwegian authorities provided broad background documentation in the relevant areas. The intensive phase of the review process was initiated with a seminar in Stockholm in December 2006, during which Norwegian academics and officials presented the selected policies. From the Swedish side, the review team plus a wider circle of people attended in order to have a broadly based discussion. During two days in January 2007, the review team met with a large number of Norwegian stakeholders invited among NGO:s, researchers, labour market organisations, companies, municipalities, government agencies and ministries. These hearings produced a wide variety of perspectives on the sustainable development policies.

A draft of the final report was discussed with Norwegian officials to test conclusions and check for factual errors. Responsibility for the final report, however, rested fully on the review team in a personal capacity.

The report was presented by the review team to the minister of finance and the minister of environment on a well attended press conference in Oslo at March 20 2007. The event was covered by several newspapers and TV.

2. Recommendations and conclusions

The following were the main recommendations and conclusions of the report.

The first theme concerned *general aspects of the design of the sustainable development strategy*.

1. The intention to change the format from an action plan (as in the 2003 policy document) to a strategy document should be carefully considered. It is good to clarify the big lines of action in a strategy document. On the other hand, the new strategy should not be too general. It also needs to be concrete with clear targets and actions.
2. Norway has developed a theoretical framework for its sustainable development policies in a model called "the capital approach" (preserving and developing the capital base in its broad sense). This is a strength. Sustainable development policies can thus benefit from a clear structure. However, it is not always evident how the capital approach has been applied in practice. The social dimension should

- be strengthened. Endeavours should be made to work across traditional sectors so that the strategy can develop synergies.
3. The European dimension should be strengthened. Norway should regularly and actively review its strategy and its policies in relation to the EU:s policies for sustainable development in order to safeguard that Norway remains among the most advanced countries in Europe as regards sustainable development. Norway can do this while still maintaining its own model for sustainable development policies. In some aspects, EU policies seem to be ahead.
 4. Cost effectiveness should be emphasised as an important guiding principle for sustainable development policies. The discussions on market based instruments should be taken forward. Impact analyses should, in line with the EU, be systematically applied as a horizontal method for strengthening sustainable development work.
 5. The Norwegian principles for sustainable development should be reviewed in order to ensure that they correspond to the principles that are actually applied. The EU guiding principles on sustainable development could help.
 6. The fact that coordination of sustainable development policies are located in the Ministry of Finance is a strength in the Norwegian approach. This way of organising sustainable development work is interesting in an international perspective. Further efforts should be made in order to exploit the advantages of this arrangement, in particular by linking sustainable development work with the budget process.
 7. Sustainable development does not have a particularly strong institutional base outside the Cabinet Office. This increases sensitivity for changed political priorities. A council or a commission for sustainable development should be considered. Such a body can improve participation from stakeholders outside the government and also have a role in the follow-up. Both a model with an independent council and a model where the council is closely attached to the government are conceivable.
 8. Norway's work on indicators is ambitious. The capital approach should be preserved. However, there is also a need for indicators which are clearly linked to political goals. Using quantitative targets as a work model is good and gives indicators a stronger role in follow up. Today it is difficult to get a clear picture of the effectiveness of follow up.

The second theme concerns *climate policy*.

9. Norway should develop a clearer and more comprehensive climate strategy than the present one. Such a strategy should present goals and measures, both at the national and the international levels in a comprehensive way.
10. The government should clarify its international intentions after the expiry of the first Kyoto commitment period 2008-2012.
11. Norway's efforts on carbon capture and storage (CCS) are of big importance for testing the technology, gaining experiences and bringing costs down. For the latter, a continued support to technical

development is probably crucial. Norway should continue to develop its unique competence in this field.

12. Norway should consider incentive measures for developing local climate work, particularly in the municipalities.
13. Public procurement is an important instrument. The government should work to ensure that actors within the government sector as far as possible apply environmental criteria in public procurement.
14. The high rate of differentiation of the carbon dioxide tax should be reviewed, with a view to have a uniform tax rate.
15. Norway will join the EU Emission Trading Scheme in 2008. It should consider auctioning the highest share possible of emission rights.

The third theme concerns *biological diversity*.

16. Objectives and targets should be clarified and more clearly linked. Follow up of measures needs to be improved.
17. It will be difficult for Norway to achieve the goal of halting the loss of biological diversity by 2010. Increased resources coupled with direct acute measures are needed, with a focus on the most threatened species and types of nature.
18. The system for protection and management of protected areas should be reviewed. The scattered population pattern provides possibilities to improve maintenance. Biological diversity needs to have a stronger position in relation to other interests in society.
19. The EU system *Natura 2000* could serve as a guiding example. Norway can adapt the system to fit domestic conditions.
20. There is a need for better indicators for protection and management and for threatened species.

The fourth theme concerns *trade and development assistance*.

21. The Norwegian policies are inconsistent by on the one hand, being generous and on the other hand applying a strong protectionism. That can impact on the poorest countries (though not the very least developed countries that enjoy a favoured status) with a large export of agricultural products and textiles.
22. Development assistance is spread out on a large number of countries, sectors and actors. This raises doubts as regards fulfilment of objectives and cost effectiveness. The increased focus that was announced in the national budget for 2007 is to be welcomed, particularly in the light of the rapid increase of aid volumes. In parallel, there is a need for a strengthened evaluation function that is integrated in the operative work.
23. The strategy of channelling a large part of the assistance through NGO:s should be examined. It is unclear whether these organisations possess the relevant top competence. The risk for a geographical fragmentation increases. It is possible that emergency aid – an important part of Norwegian development assistance – rather should be channelled through multilateral organisations.
24. The indicators for trade and development assistance should be reviewed, supplemented and in some cases replaced. The present situation can be improved by simple means.

The team's general picture of Norway's work with sustainable development is that it is pursued with political commitment, ambition, a high professional level and openness. All the points of criticism and proposals for ameliorations listed above should be seen in the light of that general picture and in relation to the character of the assignment – to contribute to an improved new strategy for sustainable development.

3. Follow up in the updated National Sustainable Development Strategy, comments from the Ministry of Finance, October 2007

After a public hearing of a draft strategy in the summer of 2007 the Norwegian Government presented its new National Strategy for Sustainable Development on 5 October. The Strategy was presented to the Parliament (Storting) and the public as part of the National Budget white paper for 2008.

The peer review is one of the most important inputs to the new Strategy. Its recommendations are seen as highly relevant and have been discussed in the committee of state secretaries coordinating the work on sustainable development. Main recommendations were also presented to the cabinet.

Many of the recommendations were followed up in the new Strategy or in other white papers and propositions to the Parliament.

The following gives an overview of how recommendations from the peer review have been followed up by The Government.

General aspects of the design of the strategy (scope, institutions, indicators, follow-up).

- In line with recommendations from the peer review, the new Strategy is concrete on policies, and includes clear targets and actions.
- The new Strategy places more emphasis on social issues. Social development is included as a main theme. A new indicator covers income distribution. The Nordic welfare model is given broad coverage.
- Links to EU policies are made clearer in the new strategy.
- The peer review asked for an increase in emphasis on issues such as cost effectiveness, use of impact analyses and how to better integrate work on sustainable development in the budget process. A commission of experts will be established to consider how to better include considerations regarding sustainable development and climate in public decision making processes.
- A new meeting place for consultation and dialogue with stakeholders will be established.
- Links between SD indicators and political goals have been strengthened. Some of the indicators have been replaced by indicators that are more politically relevant.

Climate policy

- The peer review underlines the importance of Norway's efforts to develop technology for capture and storage of CO₂ (CCS). This work is strengthened in the new strategy. The government supports establishing a carbon capture facility connected to the gas fired power plants to be built at Mongstad and Kårstø. In the budget for 2008, 995 million NOK is allocated for work with CCS, an increase of 265 million NOK.
- One of the main conclusions in the report from the peer review is that Norway needs to develop a clearer strategy on climate change. The Government presented a white paper on climate policy with ambitious goals in June 2007:
 - Norway will work for a broader and more ambitious international agreement to follow Kyoto.
 - Norway will commit to reducing global emissions of greenhouse gases by 2020 corresponding to 30% of Norway's 1990 emissions.
 - By 2012 Norway will reduce its GHG-emissions to a level 10% below its Kyoto obligations. Norway is the first country to announce such a target and calls for other countries to take similar action.
 - Norway will take responsibility for reducing emissions of greenhouse gases corresponding to 100% of its own emissions by 2050. This will make Norway carbon neutral.
 - The targets will be met by a combination of national reductions, use of the Kyoto mechanisms and joining the EU quota system from 2008. The White paper on climate policy indicates that about half and up to two thirds of emission reductions in 2020 will be made domestically.
- Norway aims to join the EU Emission Trading Scheme in 2008. In May the Government submitted a proposal for a law on the emission trading scheme for 2008-2012. In line with suggestions in the peer review, the amount of quotas sold is considerably larger and the total amount of quotas smaller than in the EU, compared to projected emissions for the participants.
- The proposed budget allocation for 2008 for purchase of permission permits is increased to 500 million NOK compared to 100 million NOK in the 2007 budget. Authorization to sign agreements for delivery and payment of quotas in future years is increased from 100 to 3 600 million NOK.
- 5.8 billion NOK are proposed for investments, maintenance and management of the railway system, an increase of 335 million NOK. The Government also proposes to strengthen public transport by increasing the funding for urban public transport.
- A new support system for renewable energy will be introduced in 2008.
- The Government proposes to increase green taxes while other taxes are being reduced.
- An action plan to minimize environmental impact from public procurement was presented in June. The Government starts working on a white paper on corporate social responsibility (CSR) this autumn.

Biological diversity

The strongest criticism from the review team addresses Norway's policies for biological diversity. White Paper no. 26 (2006-2007) "State of the environment report" which was presented in May 2007 addresses biological diversity. It contains several measures and actions in line with the recommendations from the review team and former initiatives to halt the loss of biological diversity by 2010.

- The proposed allocations for management and protection of biological diversity over the budget of the Ministry of environment increase substantially in 2008.
- The national program for mapping and surveillance of biological diversity will be extended and strengthened.
- A Nature-index for Norway is under development and a first draft will be presented in 2008.
- By developing a species data bank, we are making important progress in producing lists of threatened species, nature types and alien species. This is important for future efforts to protect biological diversity and for planning and managing protected areas.

Trade and development assistance.

- The peer review team finds Norway's level of aid to be generous. In the budget proposal for 2008 the level of ODA is increased by 1 540 million NOK to 0,98 pst. of GNI.
- The peer review team states that Norwegian trade policies apply a strong protectionism that can have a negative impact on developing countries that are not among the 50 least developed (LDCs) and have a large export of agricultural products and textiles. A working group that has examined Norway's Generalised System of Preferences delivered its report in April 2007. One of the suggestions in the report was to give 14 low-income countries the same tariff- and quota free access to Norwegian markets that is granted to LDCs. Tariff reductions are suggested for some products from other developing countries. The Government has accepted the suggestions in the report.
- Environment in Norwegian development cooperation is strengthened substantially with an increase of 400 mill. kr. for climate protection and 75 mill. for other environmental issues.
- The indicator on Norwegian imports from Africa and the LDCs in Africa has been changed, so that it now focuses on LDCs and developing countries in general.

1. Background

In the spring of 2006 the Norwegian Ministry of Finance contacted the Swedish Ministry for Sustainable Development with an invitation to take part in a peer review of Norway's policies for sustainable development. The Swedish Ministry of Sustainable Development accepted this invitation. A project plan was agreed in September 2006 for the period October 2006 to March 2007.

Peer review is a method that has been used for a long time within several different policy areas. Its main principle is that colleagues from a different country scrutinize and evaluate activities within their own field of expertise. Procedures may vary. Sustainable development is a young policy area where countries are still in a learning phase. Only a few reviews have been made in this area. The new EU strategy for sustainable development from June 2006 encourages mutual learning between member states, and a voluntary system of peer reviews has been established. The European Commission has provided a handbook on the methodology that has partly been used in this review.

According to the wishes of the Norwegian Ministry of Finance the review was structured in the following parts:

- Design of the strategy (scope, institutions, indicators, follow-up).
- Climate policy.
- Biological diversity (some parts).
- Trade and development assistance.

The peer review group was formed with regard to this selection of topics. An economist from Uganda, Joseph Enyimu, was included in the team to work on trade and development assistance together with one of the Swedish team members.

It can be seen that the scope of the review did not only cover the sustainable development strategy as such but also three substantive policy areas. This in a sense made the review wider in scope compared to the textbook model. On the other hand, there were only two reviewing countries, and most of the topics were covered only by the Swedish peers whereas the norm has been to include one or two more countries. Moreover, all the peers were taken from the public administration. This meant that there was no participation from external stakeholders or NGO's in the review team. These choices meant costs in terms of less variety of perspectives and expertise but benefits in terms of speed and administrative costs.

The basis for the review

The basis for the review consists of (a) part 1 of the *National action plan for sustainable development* that was presented to Stortinget (the parliament) by the former government Bondevik autumn 2003, and (b) the follow up of the action plan autumn 2006 in the National Budget for 2007, where the new government Stoltenberg presented its view on sustainable development, and (c) summarizing texts written especially for this peer review by Norwegian ministries, providing background on the selected topics mentioned above. In addition, we have studied the follow-ups of the action plan for other years and several reports and political documents from different policy areas – see the list of sources.

The Ministry of Finance arranged several meetings especially for this review. December 8th 2006 a seminar was held in Stockholm where leading Norwegian experts accounted for the selected topics, and where a wider group of Swedish experts than the review group had a chance to take part in the discussion. January 23rd-24th 2007 a series of hearings were held in Oslo with environmental organisations and other NGOs, industry and labour organizations and companies, the municipal sector/ regional level, research institutions and ministries. Many of the organisations and individuals that took part in the hearings prepared written contributions. The hearings, that took place in an open atmosphere, gave a broad picture of the debate on sustainable development in Norway.

In this way a comprehensive basis emerged for the assessments in this report. It should however be noted that the review team has not conducted separate collection of data and that work with the review has taken place in a short period of time, mostly parallell to ordinary work. One of the characteristics of a peer review is that it neither can nor purports to be an ordinary evaluation. Rather it is a matter of sharing experiences and knowledge. The review team possesses experiences from Swedish politics on the relevant topics, and that is an important basis for the conclusions

Drafts of the report have been discussed with civil servants from involved Norwegian ministries. This has given the review team opportunities to correct errors and to listen to arguments about our judgements and recommendations. In the end it is still the review team that carries the full responsibility for this report.

2. The design of the strategy

2.1 Introduction

Sustainable development is usually described as an overarching goal for all politics. Environmental, economic and social dimensions should in an integrated manner be built into all decision making. The time horizon should be long term and stretch over several generations. A successful policy for sustainable development integrates economic, social and environmental measures and concerns into a whole which promotes a development that is sustainable in the long term.

Accordingly, (a) a large part of politics concerns sustainable development and (b) a strategy for sustainable development should be an instrument that adds something substantial by driving forward, developing and changing policies – it should not be just a description of existing sector policies.

To develop a policy for sustainable development is a difficult and complicated task. There are large differences between countries concerning method, ambition and efficiency. It is our view that Norway belongs to the more ambitious and advanced countries, but that there is a number of areas where policy changes may be considered. In this chapter we comment on a selection of overarching questions about the design of the strategy.

2.2 Action plan or strategy?

As part of the preparations for the Johannesburg summit in 2002, the Norwegian government developed a strategy for sustainable development. In 2003 the strategy was developed into a more detailed action plan (*Nasjonal Agenda 21, NA 21*). The current government announced in the National Budget autumn 2006 that it wanted a "... brief strategy which presents the overarching and long term goals...".

The ambition to have a brief and easily read document is good, but it may have a price in the form of a lack of concretisation. A strategy for sustainable development should include concrete targets and measures. At the same time it is important not to let the strategy become a long catalogue of large and small initiatives.

The discussion about whether to develop an overarching strategy or an action plan was highlighted when the EU strategy for sustainable development was negotiated. The Commission wanted an overarching and general document whereas the majority of member states wanted the strategy to include a level of concretisation in targets and measures.

The new Norwegian strategy should seek to combine the ambitions *on the one hand* to explain, formulate general goals, work out principles and visions, develop horizontal policy tools and instruments and processes for

integration and coordination, and *on the other hand* set up clear targets, preferably in quantifiable and measurable terms, concretize measures to reach the targets, set deadlines and clarify responsibilities.

2.3 Definition and selection of main issues

Norway has set out to develop a theoretical framework for the often unclear term "sustainable development". This ambition deserves praise. Central to the frame of thought is the idea of preserving and developing the national capital base in its broad sense. The national capital base is described in terms of different types of capital: financial and fixed capital, natural capital and human capital. Herein are included social conditions. Alongside demographic development and technological development, the different capital stocks drive the long term development of welfare. The capital stocks in some cases have a critical level for long term sustainability. From the description of the Norwegian approach, it also becomes clear that a delimitation is made to processes that are irreversible. This way, a boundary is drawn between irreversible problems and environmental, economic and social problems that are of a more temporary nature and that could make the term sustainable development so comprehensive and all-including that it loses its meaning. The global perspective is emphasized. We find the overall reasoning to be good and convincing.

However, we find one important thought to be lacking. That concerns synergies and the importance of breaking up sectorised ways to organize work. A sustainable development strategy gets a more distinct value added if it succeeds in overstepping sectoral boundaries. Climate policy is a clear example of an area where there is a need for joint action between sectors (energy, transport, industry, housing and building, research). The new strategy should seek more approaches of that kind.

In the action plan, seven main policy areas are listed: international cooperation to promote sustainable development and combat poverty; climate change, the ozone layer and long-range transboundary air pollution; biological diversity and the cultural heritage; natural resources; hazardous chemicals; sustainable economic and social development; and finally sami perspectives on environmental and natural resource management.

The new Norwegian government announces that more weight will be put on the social dimension. The intention is for "the Nordic welfare model", which combines social security *and* adaptability to changing conditions, to be given prominence. This is good. The social dimension needs to be developed. Even a rich country like Norway is presented with challenges concerning people's health, exclusion from the labour market and society at large, demography, adapting to globalization, etc. It is noteworthy that the social dimension is not represented in the committee of state secretaries that coordinates the government's work on sustainable development.

We think that in the selection of main issues Norway should take the new EU strategy for sustainable development into consideration (see section 2.4).

For an outside observer it is not quite clear why the *sami perspective on environment- and resource management* is made into a separate thematic area in the action plan. There is no doubt that policies within this area are important for a sustainable development. The question is however if the action plan runs the risk of fragmentation and an unclear focus, if one singles out one area that could very well be included under one of the other six main policy areas. The sami perspective could be included under the areas *biological diversity and the cultural heritage* and *natural resources* (if they are kept).

2.4 The European dimension

Sustainable development has attained an increasingly important position on the European political agenda. In January 2007 the European Commission presented a comprehensive package of proposals on climate and energy policy. The EU will be an important actor when the future global climate regime for the period after Kyoto is negotiated. At the meeting of the European Council in March 2007, important steps were taken towards an comprehensive climate policy. There was agreement on quantitative measures for emissions reductions, renewable energy, improved energy efficiency and bio fuels. In June 2006 the European Council adopted a renewed strategy for sustainable development, building on the first strategy from Göteborg 2001. The new strategy includes a number of concrete targets and measures, and it constitutes a framework for the sustainable development policies of the EU in the years to come. Not least important is the fact that the new strategy will have substantially strengthened implementation procedures where the European Council bi-annually, starting December 2007, collectively will review implementation and assign new measures and guiding principles. From the Swedish side negotiations on the new strategy were given high priority, and the result was valued as very positive.

For Sweden, like for other member states, the new EU strategy will be an important point of reference for the national work with sustainable development. A question that presents oneself is how the EEA country Norway should relate to the EU's work with sustainable development.¹ A minimal model is only to make adjustments when the EU's work with sustainable development results in proposals for legal acts concerning the single market, in other words to do what the EEA agreement demands. A maximal model would be to take the EU sustainable development strategy as a point of reference when the national Norwegian sustainable development strategy is developed.

Norway has no duty to comply with a political document like the EU strategy. But there may be other and more important reasons than formal ones to give it more weight than is the case now. To strengthen Norwegian politics for sustainable development, it is important to:

¹ It should be noted that the Commission's draft new strategy for sustainable development was classified as a document with relevance to the EEA.

- make sure that Norwegian ambitions keep up with the ambitions of the EU,
- take new measures and targets that are introduced in the EU into consideration,
- discuss differences in direction and motivate Norwegian exceptions,
- clarify the relation to the EU strategy for sustainable development.

Some points where we notice differences between Norway and the EU are: the selection of main issues, development of indicators, selection of guiding principles for sustainable development, the use of impact assessments, the institutional set up. There are also concrete measures of importance. For example, the EU membership has led to Natura 2000 giving Sweden heightened ambitions in its work for biological diversity. Another example is that Sweden has already become part of an international system for emission trading, whereas Norway joins the system in 2008.

Norway should consider to systematically and regularly analyze the development of EU's work on sustainable development. One element should be that the Norwegian delegation in Brussels reports on the subject and develops its contacts with EU institutions on sustainable development. However, it is far from sufficient with a passive surveillance: Oslo should on a regular basis, i.e. every year and particularly in connection with the European Council's bi-annual December follow ups, *actively* evaluate which changes and amendments developments in the EU could motivate. This should form a part of the new Norwegian strategy and be reported in the follow up. A procedure like this should help Norway to remain among the leading countries in Europe.

It should be underlined that it is not necessarily a question of changing the Norwegian model of working with sustainable development. What is important is to look at the substance of the politics, that is; concrete goals, measures and tools of implementation.

2.5 Cost effectiveness

An important principle for developing policies for sustainable development should be cost effectiveness, as is pointed out for example in article 3 of the UN Framework Convention on Climate Change. In the Norwegian action plan, cost effectiveness is not given status as a guiding principle, but is only mentioned in passing. In the action plan from 2003, there is a paragraph on policy instruments (*virkemidler*). The discussion is general and does not cover pros and cons of different choices regarding instruments and goal formulations when deciding policies for sustainable development. We would like to see a more profound discussion on policy instruments on the basis of what constitutes a cost effective mix of instruments in the revised strategy. Recurring evaluations of instruments, goals and policy measures should be a part of policy development.

The practical meaning of the principle of cost effectiveness will here be illustrated by two questions: sector specific targets and the CO₂ tax.

Sector specific goals

It is common, and sometimes justified, to set up sectorial policy goals (i.e. for sectors like transport, energy, different industries). There are, however, risks to this approach. In some cases sectorial targets can make implementation of policies more expensive than necessary. If one for example introduces equal sector-specific targets for how much a certain type of environmentally harmful emissions should be reduced, this means that one disregards that the costs for reducing these emissions can vary considerably between sectors. Seen from the perspective of the *whole* society, it can be less expensive if one sector makes 95 per cent of the reductions and the other sectors make the remaining 5 per cent. By being flexible in the question of in which sector reductions are made, one gets a larger environmental effect per invested crown; the resources that are saved can instead be used for i.e. measures against other environmental problems. It is therefore important that this dimension is carefully analysed before sectorial goals and targets are formulated. This is particularly true for greenhouse gases, where the effect on the climate is independent of where the emissions take place.

The CO₂ tax

Norway's current mix of CO₂ taxes, emission quotas, and voluntary agreements on the climate area is hardly cost effective. Particularly striking is the design of the CO₂ tax. The Norwegian CO₂ tax is not suitable if the intention is to reduce emissions of CO₂ in a resource efficient way. (The same goes for the design of the Swedish CO₂ tax, as for the design of this tax in several other western European countries).

The Norwegian tax varies between approx. 85 NOK and approx. 340 NOK per ton CO₂ emission. We can find no justification for this variation based on principles of an effective climate policy. For example, it is hard to understand why diesel used in cars should have a considerably lower CO₂ tax than petrol.

The main principle for a CO₂ tax should be that it is equal (per unit of CO₂ emission) for all fuels (oil, coal and gas), and for all sources of emissions (households and businesses). In this way one secures cost effectiveness by the same logic that applies between sectors. A uniform CO₂ tax can be seen as an easily administered tool to achieve a horizontal and suitable coordination of a central part of Norwegian climate policy.

A cost effective design of the CO₂ tax would mean a considerable improvement. The highest level of the CO₂ tax in Norway today is considerably higher than the expected price of quotas under the Kyoto protocol. If Norway wants to pursue a more ambitious policy than what follows from this price level, one could gradually raise all CO₂ taxes to the highest level. This would mean a higher level than the international price for

emission quotas. Norway can then use the increased income to lower the general level of taxation; alternatively, the increased income can be used for a general campaign for climate friendly technology.

Impact assessments

In the new EU sustainable development strategy impact assessments are pointed out as an important instrument for making better decisions. For all important decisions, the European Commission now carries out an analysis of economic, social and environmental consequences. Within the economic area, analyses are carried out on the effects on competitiveness, competitive relationships for markets, consumers and macro economics, among other factors. Impact assessments are emphasized in the EU strategy for sustainable development as an important horizontal instrument. In the Norwegian action plan from 2003 impact assessments are treated as a horizontal policy tool that can contribute to secure overall sustainability in political decisions. In the new strategy, Norway should consider how impact assessments systematically can be developed to strengthen work for sustainable development. Analysis of cost effectiveness should be included as an important part of the assessments.

2.6 Guiding principles for sustainable development

In the action plan the Government has clarified certain principles which the policies of sustainable development are built upon. The seven principles chosen are: administrative responsibility, precautionary principle, ecosystem approach, polluter pays, mutual but differentiated responsibility, coordination of policies, and common effort for reaching the goals. It is a great initiative to display the principles behind the policies. At the same time, it is for understandable reasons difficult to state *all* the principles that politics are built on. A border has to be drawn somewhere. It is important that the principles that politics are said to build on match the principles that are in fact applied.

For an outside observer it can for example be hard to understand that a policy which claims to build on the "polluter pays" principle, at the same time gives away free emission quotas to the industry responsible for the pollution. One would expect that such a policy would mean that the companies that pollute would have to pay for their emissions.

There may be a fundamental explanation for why the Norwegian government has chosen not to auction the emission quotas. However, from the stated principles behind the development of policies, it is hard to understand what has been decisive for the decision not to do so. This could be seen as a problem for the credibility of the action plan. An observer could ask whether there are in fact other principles than the ones presented in the action plan that are more fundamental in the actual design of policies.

To secure the credibility of the new strategy, all central principles for the design of the policies pursued should be presented. We would like to point

out in this regard that it is quite legitimate to consider the industry's competitiveness when designing a policy for sustainable development. This should also be said when the principles behind policies are presented in the strategy.

We would also like to draw attention to the ten guiding principles that form part of the EU's new strategy for sustainable development. The principles are promotion and protection of fundamental rights; solidarity within and between generations; open and democratic society; involvement of citizens; involvement of businesses and labour market parties; policy coherence and governance; policy integration; use of best available knowledge; the precautionary principle and the principle to make polluters pay. Also these principles could be considered in the new strategy.

2.7 Institutionalizing sustainable development: Sustainable Development Council

We note that sustainable development seems to have a weak institutional basis outside the Government system (where there is a clear structure with the Ministry of Finance in a coordinating function and the group of state secretaries). This may both be the result of and a cause for the lack of continuity that seems to be a distinguishing characteristic of Norway's (as well as other countries') work with sustainable development over a longer time span.

We will therefore raise the question if not sustainable development should get a stronger institutional anchoring outside the Government system. Conceivable reinforcements are a council or a commission; some kind of body for the regional and local level or that Stortinget establishes a suitable body (like the German parliament has done).

The new EU strategy for sustainable development recommends establishing councils for sustainable development. One model is the kind of independent bodies found in the United Kingdom and Germany.¹ The idea behind them is that an independent body of experts can make interesting analysis and, not least, act in a surveilling "watch dog" role. A different model, found in Finland, is a body closely tied to the Government, which brings together a broad range of interests and builds a forum for dialogue, analysis and support.

In Sweden a commission for sustainable development was recently established. It is lead by the prime minister. Important motivations for the commission was to create a forum for consultation, for broadening support, and for cooperation between politics, business, research and NGOs. Of particular importance was a desire to get a broader participation from society in the continued climate policy. Climate change will be the center of attention during the first year of the commission, but afterwards other questions relating to sustainable development will be brought up.

¹ *Sustainable Development Commission resp. Rat für Nachhaltige Entwicklung.*

The picture that emerged in the hearing in Norway was that the NGOs were quite pleased with their opportunities for dialogue and influence. We are under the strong impression that work with the new strategy is an open process where possibilities are provided to state one's opinion through the Internet, written contributions, direct contact and conferences. The question is how this kind of contact is organised in the day to day activity that will follow in the time after the new strategy has been adopted. It is also a question of broadening the sustainability efforts outside government and giving it a higher political profile. We have noted that there is an engaged work for sustainability going on in many organisations and businesses in Norway.

Whether there should be an independent body or a body closer to government is a question of, among other things, the structure and tradition of the political system. Different considerations may come into play. We believe that Norway should consider establishing some kind of forum. The fact that Norway had a body of this type in the early nineties should not prevent the question from being considered again.

2.8 The coordinating role of the Ministry of Finance

Since 2003, the Ministry of Finance has had the task of coordinating policies for sustainable development. As far as we know, this is an institutional arrangement that is unique in an international context. Usually it is the Ministry of Environment or the Prime Minister's Office that have the main responsibility of coordinating sustainable development policies. One important reason for the Norwegian solution is an ambition that policies for sustainable development should be tied closer to concrete policy instruments in the tax and budget policies and penetrate all the government's work.

To place the responsibility with the Ministry of Finance is a solution that seems to have a great deal of support – both within and outside the government system. The general opinion seems to be that the coordination is handled with professionalism and that the location within a powerful Ministry is for the better.

We believe that the key to success with the chosen model is to show through actions that the Government takes the strategy and action plan seriously. This way, a self reinforcing process can be initiated, where the strategy functions as a central political starting point for decisions within the affected fields. It will then serve as a support in the efforts to develop, implement and follow up on policies. Otherwise, there is a considerable risk that the strategy and the action plan will become ineffective appendages to the economic policy.

A potentially important advantage by giving the Ministry of Finance the responsibility for coordination is that sustainable development can be integrated in the budget process, which is the most central process for political considerations and decisions. It is important that a strong link is

created between the strategy and the annual budget process. Our impression is that Norway has done so to a higher degree than i.e. Sweden. The question remains whether even more could be done, for example when guidelines for work with the budget are issued.

We believe it to be essential that the practical work with implementing and following up the action plan lies very close to the work with the annual budgets.¹ There should be a more profound organisational integration of the work with the strategy in the budget process. Here are several possibilities for improvements. Perhaps it is not decisive exactly where in the organisation the function of coordinating efforts for sustainable development is placed; there are advantages to keeping it in the economy department, but one could also imagine that the unit was moved to the budget department. What is important however, is that the process of hammering out the annual budget *starts* with the goals and ambitions that are formulated in the strategy and action plan for sustainable development. If this is not done, the strategy will not exert real influence on the development of policies to the degree that is desirable.

2.9 Indicators and follow-up

Indicators play an important role in Norway's work with sustainable development. Below we give some general comments on the indicators. In addition we have more specific views on the different individual indicators. These will be given in other parts of the report.

The theoretical framework that Norway (like the World Bank) has chosen – the capital approach – is a frame of thought not only for the indicators but for the whole of the work on sustainable development (see section 2.3 above).

The development of the indicator set was prepared through an inquiry resulting in an expert panel report (NOU 2005:5). Norway has been a driver internationally in the OECD and other bodies to develop analytically coherent and internationally accepted indicators. Norway deserves credit for this. Norway's approach is original and differs from the policy based model that the EU and many other countries have chosen where indicators are linked to different political goals. This has both advantages and disadvantages.

It is good that a fundamental theoretical framework has been chosen. Otherwise it is hard to delimit the concept sustainable development, and there is a risk that all kinds of political questions are labelled as "sustainable". The national capital seems a reasonable point of reference. In Sweden a similar approach has been attempted in the indicator set and has resulted in an attempt to develop a "green GDP", something that is

¹ We believe for example that the problems that are pointed to in the section on biological diversity could partly be a result of shortsighted budget political decisions, where measures for biological diversity have been suffering because of short term budget priorities.

theoretically possible. The practical difficulties, however, turned out to be insurmountable – for example it was not possible to put a monetary price on certain types of environmental capital. Against this background Sweden has chosen not to proceed on the basis of a capital approach, but instead bases its indicators on policy areas and political targets.

Though original, the practical adaptation of the capital approach in Norway reduces the difference compared to other countries. The ambition in Norway has not been to develop a unitary economic measure of the national capital. For some types of capital, economic values are calculated, whereas for other types more indirect physical terms are used (like for human capital).

The link between indicators and quantitative targets for policies could be strengthened in the new strategy. In Norway there is a certain ambition to set clear quantitative targets, foremost through the system with eleven environmental target areas, which are evaluated every second year in the state of the environment report¹. The Swedish equivalent is the system with sixteen environmental goals that are regularly followed up, and where measures are evaluated. There are goals of this type even in other areas of Swedish politics (energy, public finances, inflation). Even in the new EU strategy for sustainable development there are a number of quantitative targets. The meeting of the European Council in March 2007 resulted in some important quantitative targets for reducing emissions of greenhouse gases, for renewable energy, bio fuels and energy efficiency.

We still are under the impression that Norway to a larger degree could set quantitative targets. If one moves in that direction it is questionable whether the capital approach is sufficient. This is partly due to the fact that it is hard to measure all forms of capital and partly because it is of questionable value to set goals for different types of capital. It should therefore be considered to set more quantitative goals and develop supplementary indicators to follow them through. It should be noted that Norway's indicator set is small (i.e. the EU uses about 150 indicators, the Nordic Council of Ministers nearly 100 and Sweden 87).

It is important with a clear follow-up of different measures. We would first like to express our appreciation that an annual follow-up is made in the National Budget². This means that sustainable development is reflected in the Government's most important planning document. The budget follow-ups could however be made more easy to read. At present they are a listing of different measures that are planned or decided within different policy areas. An account like this can be informative to the public, but it leaves to the reader to find out, with the help of other material, whether formerly announced measures have been followed up, whether there are problems and difficulties on some areas, whether measures have had the intended effect and whether they are sufficient to reach the targets. The reporting should be developed so that it becomes more analytical.

¹ Most recently in White paper 21 (2004-2005).

² Most recently in chapter 7 of the National budget for 2007.

It could be considered to give some public authority or independent body for sustainable development (see section 2.7) the task to evaluate the overall follow-up of sustainable development, and to provide Government, Parliament and the public with an independent basis that can supplement the follow-up in the National Budget.

3. Climate policy

3.1 Introduction and definition

Climate change is one of the largest challenges the world faces. No other environmental issue has the potential to influence all of society to such a radical degree. There is a need for forceful efforts to reduce the current emissions and at the same time make sure that future emission increases are limited.

The international instruments that are available to limit climate change are the UN Framework Convention on Climate Change and the accompanying Kyoto Protocol. The climate convention states that the concentration of greenhouse gases in the atmosphere is to be stabilised at a level where dangerous human influence on the climate can be avoided. This level should be attained within a timeframe that gives the ecosystems time to adapt in a natural way that does not threaten the production of food and secures that economic development can continue in a sustainable manner. The Kyoto Protocol concretises the first steps towards this goal, which means that industrial countries commit to take on certain reductions in the time up to 2012. National reduction measures after 2012 must be concretised soon and be compatible with the goals of the climate convention.

These measures should serve as the foundation for countries' future actions on the international and national arena.

The documents that form the basis for the assessments below are the National Budget for the years 2004 - 2007, Norway's fourth National Communication under the Framework Convention on Climate Change, Norway's Report on Demonstrable Progress under the Kyoto Protocol and the inquiry report *A climate friendly Norway* (NOU 2006:18).

3.2 The international arena

It is clear from the National budget that Norway wants to take a national and international responsibility to reduce climate change. The Government has accordingly set a number of main targets that are to contribute to this overarching goal. The majority of the targets are linked to different national measures.

One such target is to work for a more ambitious international climate agreement with stronger and more extensive measures after 2012. What a post 2012 agreement could look like and what principles are seen as

important is, however, not discussed. In the coming strategy it should be possible to elaborate more on this, without the Government prejudging its positions in future negotiations.

3.3 The national arena

In the Kyoto Protocol Norway has been allotted a volume of emissions for the period 2008-2012 which corresponds to five times 101 per cent of the country's emissions in 1990. The latest emissions projection shows that Norway must reduce its emissions by approximately nine million tonnes CO₂ equivalents each year as an average for the Kyoto period. This will, according to the Government's plans, be achieved in a cost effective manner through a combination of trade with emission quotas and domestic measures. Norway will join the EU emission trading scheme in 2008. This gives an opportunity to auction a substantial share of the quotas. That opportunity should be taken.

The access to and price of emission quotas is decisive for the ambition to implement national measures. If no further national measures are taken, Norway may have to buy emission quotas amounting to almost 45 million tons of CO₂ equivalents for the period 2008–2012¹.

At the same time different domestic measures are presented in different documents that can reduce the need to buy emission quotas, and that may influence Norway's contribution to reaching the necessary reductions of the long-term goals of the climate convention. According to the report *A climate friendly Norway* (NOU 2006:18), the Norwegian contribution should be a domestic reduction of emissions of 50–80 per cent compared with the current level. The inquiry and the following report, written by a panel of experts, had a mandate to come up with recommendations on how Norway could be developed into a "low emission society".

The flexibility we find today concerning the share of emission trading vs. national measures, which is a natural consequence of a cost effective approach, can however lead to criticism when it comes to Norway's willingness to cut its domestic emissions.

Norway has high ambitions to limit climate change and has for a long time used different policy instruments to reduce emissions of greenhouse gases. The most important instrument is probably the CO₂ tax, which was introduced in 1991. The effect of current measures is accounted for in Norway's Report on Demonstrable Progress from 2005.

It is important that national measures are implemented as early as possible and that the measures contribute to a solid and long term basis for emissions reductions so that Norway can be developed into a "low emission society".

Even if Norway has several forceful and ambitious measures in place or planned, one lacks a clear and concise national climate change strategy.

¹ *Norway's Report on Demonstrable Progress under the Kyoto Protocol*, December 2005.

Because measures to limit climate change affect all levels of society, Norway should develop as soon as possible a clearer climate change strategy/action plan.

Transport

Emissions from transport show the typical increasing trend. Norway struggles with the same problem as other industrial countries to limit emissions from the transport sector. The methods to limit emissions include, among other things, measures to increase the share of vehicles with lower emissions of carbon dioxide. The CO₂ tax is central in this respect (see section 2.5). This increase can be achieved either by promoting alternative fuels or by favouring conventional vehicles with low CO₂ emissions. Low emissions should be rewarded regardless of whether the vehicle is a so-called flexi-fuel vehicle, hybrid vehicle or a conventional vehicle, because flexi-fuel vehicles and hybrids can often be driven on conventional fuels. Policy instruments should be designed so that low emissions are stimulated at the same time that alternative fuels are rewarded.

Other measures like strengthening collective transport are also important.

Reduced emissions from use of fossil fuels (capture and storage of carbon dioxide)

The emissions of greenhouse gases from oil and gas production are considerable and at the present time equal the emissions from the transport sector. The main emissions come from energy production in gas turbines off-shore and flaring¹. Over the years, the emissions have increased as a result of increased activity off-shore. The emission per extracted oil equivalent has however been reduced.

The most important instrument so far has most likely been the CO₂ tax that was introduced in 1991. The tax has exerted an influence on the off-shore industry's efforts to find technological solutions to limit the sector's GHG emissions. Soon after the tax was introduced, work began on the Sleipner field to separate carbon dioxide from natural gas and reinject the carbon dioxide into deep aquifers.

The know-how that Norway has gained on capture and storage of CO₂ (*Carbon Capture and Storage, CCS*) even comes to use in realizing the handling of CO₂ from new gas power plants in Norway. The technique should be developed as soon as possible so that one can gain experiences from large scale operation on power plants. The technique is not yet economically defensible, so stimulating measures are needed to get it in place.

Through decisions in the budget for 2007, this development is stimulated. Means have been granted for research and development and work with

¹Flaring is the intentional burning of gas residues at i.e. oil production facilities, refineries or petrochemical industries.

capturing CO₂ from gas power plants. For 2007 more than 860 million NOK has been granted, of which 720 millions NOK will go to handling CO₂ at Kårstø. In addition to these initiatives, the Norwegian state has made a deal with Statoil about economic contributions for full scale handling of CO₂ at Mongstad. These initiatives are of great importance to get a chance to test and gain experiences with the new technique and over time even get the costs down. To reduce costs, continued technological development will be essential.

CCS is an interesting technique to reduce emissions, particularly in fast growing economies like i.e. China and India where fossil fuels, primarily coal, is likely to amount for a considerable part of the energy mix for the overseeable future. Even if the conditions for CCS can vary a great deal, Norway should develop further how Norway's unique competence in this area can be spread and come to use in other countries, particularly in countries where emissions are expected to increase strongly. This is an important contribution to the work for a sustainable development (cf. paragraph 20 c of the Johannesburg declaration). To get in place immediately full scale plants where the technique is used is a necessity. The Norwegian effort to develop CCS can thus be of large strategic value on a global scale.

The regional and local commitment

The regional and local commitment is of central importance to fulfil the Government's ambitions on climate change (and on sustainable development in general). The municipalities have a particularly important function in adapting and developing national policies to the local level. The knowledge and the commitment that exists at the local level (municipality) should be nurtured and encouraged in the regional (county) and national efforts to limit greenhouse gas emissions. It is important that the local ambitions and measures are in harmony with the government's overarching policy. To further develop the local (and regional) efforts, Government should consider different measures of incentives.

What the State can do

Through its role as governing body and through measures in its own activity, the State can contribute to increase the commitment to climate change policies and increase the understanding that measures are necessary. This can be done in several ways, i.e. the Government has recently decided that the international air travel taken in the State service shall be "neutralized" through purchase of emission quotas. Other examples can be that State bodies, whenever possible, buy low emission vehicles. Each year, the State and other public bodies purchase goods and services amounting to many billion NOK. Because of its large volume, public procurement can be a powerful tool for the State in the transition to a sustainable society. It may even be a driver for the development of environmentally adapted products, services and technologies. The Government should influence public actors

to include environmental considerations in public procurement whenever possible.

3.4 Conclusions and recommendations

- Norway should develop a clearer and more comprehensive climate strategy than the present one.
- The government should clarify its international intentions after the expiry of the first Kyoto commitment period 2008-2012.
- Norway joins the EU Emission Trading Scheme in 2008. It should consider auctioning the highest share possible of emission rights.
- Norway's efforts on carbon capture and storage (CCS) are of big importance for testing the technology, gaining experiences and bringing costs down. For the latter, a continued support to technical development is probably crucial.
- Norway should consider incentive measures for developing local climate work, particularly in the municipalities.
- The government should work to ensure that actors within the government sector as far as possible apply environmental criteria in public procurement.

4. Biological diversity

4.1 Introduction and delimitations

In the peer review project plan, Norway stated the following requests for the investigation of the area biological diversity:

- representativity and coverage of different habitats in protected areas,
- management and care of protected areas,
- design and operation of the system for mapping,
- surveillance and indicators for species/populations and nature types.

Implementing international agreements is an important part of Norway's policy for biological diversity. Norway is a party in the convention on biological diversity (CBD), and as a result of this it has committed to the goal to halt loss of biological diversity by 2010. In the white papers no. 42 (2000-2001) and 21 (2004-2005) the main targets and measures are listed that constitute Norway's strategy to fulfil the 2010 goal. These documents were put forward by the former Government, but the current Government has clearly stated that it will not reduce the level of ambition.

In this chapter several references are made to Natura 2000, which is a network of protected areas according to the EU's so-called Habitat directive.¹ Norway does not have to adapt to this directive as it is not a member of the EU, but it is, of course, of interest to compare Norway's measures with the measures that the larger part of Europe implement in order to protect the biological diversity.

4.2 Targets for biological diversity

The targets for biological diversity in Norway's strategy are derived from a strategic goal: That nature should be managed in a manner that secures sustainable stocks of naturally occurring species, and that a variation of habitats and landscapes are maintained as well as that it is possible to secure the further development of the biological diversity. Norway has also committed to the goal to halt loss of biological diversity by 2010. The strategic goal is connected to seven targets. The seven targets should then be connected to sector specific targets, which are again connected to a number of indicators.

The strategic goal is well formulated. However, the targets could be more specific in order to make them clearer and easier to break down. Without secondary targets under the main targets, it is hard to know what they really

¹ Rådets direktiv 92/43/EEG.

mean. In many cases this makes them hard to follow up. For example, it is stated that interference should be avoided in threatened nature types, and that in habitats demanding special attention, important ecological functions should be maintained.¹ It is hard to follow up on a target like this if it is not described what the target should mean in practice. The sector specific targets seem to be missing. They could otherwise have clarified the targets. Indicators though, are available and relevant.

According to the 2003 action plan for sustainable development, the different ministries should produce sector specific environmental action plans. The intention was that the plans should describe how different sectors could contribute to reaching the targets. The sectors would then finance necessary measures through their own budgets. The system with sector specific environmental action plans is no longer active, however. This makes it more difficult to identify contributions from different sectors, and the sectors do most likely not have a clear picture of their role in environmental policy. The ministries annually report on their environmental results. These are however hard to identify in the follow-up through the national budgets or in the national “state of the environment report”. There seems to be an ambiguity that has the effect that the Government’s intentions in the action plan are not fully being carried out in the sectors. Better governing of the sectors through clearer goals and measures linked to the budget process could be a way to address this.

Through the system with environmental quality objectives, decided by the parliament, Sweden has tried to build a clear structure with goals, targets and measures. Today there are sixteen goals, of which seven are linked to biological diversity. Each environmental quality objective has several time-specific targets that are supposed to be clear, possible to implement, and decomposable to the regional and local level. The goals are followed up on an annual basis. The assignment of responsibility for carrying out measures to different public bodies is clearly stated.

During the peer review process a wish has come to light to be able to break national goals down to the local level. We think this would strengthen the ownership and enhance a broader implementation of the goals. Goals like the one to halt loss of biological diversity by 2010 are particularly important to translate and break down to the local level. It is important that people understand why the biological diversity needs to be maintained – that future generations’ interests are at stake. Conflicts between different interests seem to be more prevalent in Norway than in Sweden in this area. It may be a result of a larger share of Norway’s population living in rural areas. This makes it perhaps even more important to maintain local support in Norway.

4.3 The follow up and evaluation of goals and measures

General

¹ White paper no. 21 (2004-2005).

The measures in the Norwegian action plan for sustainable development consist to a large part of broad programs and plans. In some cases even deadlines and percentages are stated. It is doubtful, however, if the suggested measures are sufficient to reach the ambitious goals.

The measures are partly followed up in the 2005, 2006 and 2007 National Budgets and in the white papers on the Government's environmental policy and the state of the environment 2003-04 and 2005-06. It is not quite clear however, how these measures relate to the targets and how they relate to each other. The follow-up in the 2005 and 2006 National Budgets does not present all measures from 2004 and also adds new measures without explanation. There could also be a clearer link between targets and measures. As a result, it becomes difficult to evaluate implementation of targets for the different goals. In the section below we discuss more thoroughly some of the goals and measures.

Protection of forests

One goal is that a representative selection of Norwegian nature should be protected. For forests this should be achieved through the protection plan for conifer forest, the national parks plan and the counties' environmental protection plans.

Like in Sweden it is mainly low productive areas like mountains and low productive forest that have been protected in Norway. In 2003, a little more than 4 per cent of the total productive forest areas in Sweden were protected. In Norway the share was 1.4 per cent in 2006. In Sweden an equally large share was protected below the forest adjacent to the mountains, that is 1.4 per cent of the productive forest area in 2006. In the Swedish work to protect forest it is now most usual to define share of protected forest (= nature reserves and national parks where forestry is not allowed) as productive forest below the border for so-called "mountain-adjacent" forest. The reason for this is that it is here the largest need to expand the protected forest exists.¹ In the Norwegian statistics "mountain-adjacent" forest is not singled out. The statistics is not fully comparable, but it still indicates that Norway can do more. According to a Norwegian evaluation² at least 4.6 percent of the Norwegian forest needs to be protected. In comparison, the EU commission in the selection for Natura 2000, set a lower limit of 20 per cent for the habitats that are threatened or rare in an EU perspective. This means that 20 per cent of the total area of the nature type, with a geographical distribution and with the most important areas intact, must be protected in the Natura 2000 network. For the most threatened habitats the share should be over 40 per cent.

Like in Sweden it is productive forests, swamp forests and deciduous forests in lower altitudes that are most in need of protection in Norway. It is unclear to what extent such forest types are included in the protection plans

¹ National strategy for formal protection of forests, Naturvårdsverket and Skogsstyrelsen, June 2005.

² NINA and Skogforsk, 2002.

described among the measures. It is important to identify what types of forest are threatened in a Norwegian perspective, in a European or global perspective, and what nature types Norway has a particular responsibility to protect and to secure for the future. It will have pedagogical value if the State leads by example on its own land.

The fact that species or habitats disappear because of a country's development is not sustainable even if the species or habitats are found in good populations in other countries. Normally a certain species or habitat is also important for other species or habitats (including humans), so without a deep knowledge of the ecological connections one can not even temporarily let a species or habitat disappear from the country. That could also mean an irreversible loss of uniquely adapted genes. The Norwegian so called red list (of endangered species) 2006¹ shows that approximately 48 per cent of the endangered species live in forests.

Voluntary protection of forest areas for protection

Voluntary protection of forest areas for protection is mentioned in the National Budget 2006 as a measure to increase the area of protected forest. In Sweden, voluntary protection means that the landowner voluntarily refrains from forestry without receiving any compensation for it. Often it is done as part of a certification of forests. In Sweden the experiences with such a system are not undividedly positive this far². Only small areas have been protected in this way and in the cases where areas have been set aside, it has to a large degree involved only a certain displacement of the time for logging or areas with limited value for biological diversity. Despite this fact, 500 000 hectares of forest should be voluntarily protected by 2010, according to the Swedish forest strategy. In the same period, the State is to protect 400 000 ha.

It is a good thing that landowners can assume their part of the responsibility; however, there is an imminent risk that the areas that are most important for preserving biological diversity are not protected. It is conceivable that so called agreements on management and care – a written agreement between a landowner and the state – could be an alternative approach.

Protection of hay meadows and pastures

The Norwegian goals state that the cultural landscape should be managed in a way that secures that i.e. biological diversity is maintained. Furthermore, a representative selection of Norwegian nature should be protected. The measures to achieve these goals seem to be the regional (county) environmental protection plans, a Nordic strategy for landscapes and strengthening the work with plans for management and care.

¹ The species databank in Trondheim.

² I.e. the Swedish Environmental Objectives Council report De facto 2006.

It is a good thing for the biological diversity that Norwegian agriculture is so active all through the country. However, Norwegian agriculture needs to be opened for developing countries to a higher degree (see chapter 5) and if the subsidies become more production neutral, there is an opening for producing more biological diversity on the existing areas instead. This implies a need for increasing the areas of hay meadows and pastures. A lack of management seems to be the main problem for preserving the biological diversity in Norwegian hay meadows and pastures. If the areas are used for conservation, they can be returned to agricultural land if there is a need for this in the future. This also means that there is an economic future for agriculture in all parts of the country in the future as well. Increased efficiency and closure of agricultural land otherwise threatens to decrease biological diversity. Approximately 35 per cent of the redlisted species and a majority of the acutely threatened species are found in the agricultural landscape.

Mapping of nature

A *municipal* survey of biological diversity was started in 1999. The project was partly financed by the State, but to a large degree by municipalities themselves. The Directorate for Nature Management produced guidelines for the survey, which included 25 000 areas in 95 per cent of the municipalities. A lack of resources and competence seems to have resulted in mapping of species progressing slowly and the quality in some instances not being optimal. The survey is still being completed and should become a valuable foundation for future efforts. The programme for registering of forest that has been carried out (MiS) also provides an important basis.

The *national* program for mapping and surveillance of biological diversity began in 2003. The programme should (according to white paper no. 21 (2004-2005)) secure the quality of the municipal survey and strengthen it by filling in the blank spaces. The idea was that the survey should be made recurring to provide data on changes, that is a type of follow-up or environmental surveillance. The main focus in the national programme was on methodology, and any recurring surveys have not been made so far.

Environmental surveillance is an important supplement to implementing conservation goals. Both the mapping and the surveillance should be reinforced, as they constitute an important base for protection and management of nature, and thereby for biological diversity.

The draft new law on protection of biological diversity

The draft new law for protecting biological diversity aims to implement a system similar to Natura 2000. The protection is to be achieved through planning processes and sector plans in the area-demanding industries. In order to work, the system places a large demand on allocating sufficient competence and resources on the municipalities. A first redlist of threatened habitats is due for release in 2008 from the Norwegian Species information centre. It will provide the foundation for identifying protected areas for

different nature types as mentioned above. Our assessment is that the redlist comes rather late for influencing the 2010 goal.

In the draft for the new law there is a description of how conflict of interests should be handled in special hearings. The described hearing touches directly on the equivalent to ch. 7 § 29 in the Swedish environment code that implements article 6.3-6.4 in the Habitat directive, that is whether the matter involves overriding public interest. But instead of looking for alternative localisations, the draft law suggests that one should find out if the habitat occurs in other similar places or not. We find this to be the wrong point of departure. One should avoid expressions in the law like "protected to the extent possible" and instead state under what conditions other interests will be given precedence. The suggested law would also gain from making clear *when* the identified areas should be given formal protection.

It is difficult to have more views on a new suggested law without having plunged deeper into the Norwegian legislation and nature conservation. However, it seems that the proposal implies a weaker protection than the one provided by Natura 2000 as the areas are not considered protected, and that it seems easier to give in to competing interests. Nor is management compulsory for the habitats that require such care.

The Norwegian system to preserve biological diversity is built on three categories of areas. These are protected areas, selected areas and areas from the municipal survey. How robust the protection is for the different categories and if it is sufficient remains to be seen. It is a praiseworthy and ambitious approach though, that can work if the protection becomes sufficiently strong.

The protected nature is also dependent on its surrounding landscape for the spreading of species. Therefore there is a need for integrating a consideration for nature conservation in the use of nature in agriculture and all other exploitation. The status of biological diversity compared to other interests is very important in different decisions on the use of lands. Sustainable use means that goals for biological diversity can be achieved.

4.4 Are targets and measures suitable for reaching the 2010 goal?

The suggested measures are primarily about different long term strategies, plans and programs which are necessary to achieve a sustainable development in the long run. More measures are needed however, if Norway is to have a chance to reach the goal to halt loss of biological diversity by 2010. The first is to immediately protect known occurrences of threatened species and known areas with sensitive and threatened habitats. It is imperative that protection efforts continue at the same time as further knowledge is collected. The experience from Sweden is that nothing is protected in vain if one starts with the areas that are known to have high nature value, as there are very large areas that need protection.

However, when it comes to protecting biological diversity one can not just refer to percentage goals. It is possible to have a large percentage of nature that is "protected" and yet be unable to stop the loss of biological diversity. It is also necessary that the quality of the protected areas is high. The work with establishing the network Natura 2000 in Sweden has meant that the whole breadth of nature that, at least in an EU perspective, can be considered threatened or unique, has been the basis for the selection of areas. The selection has been based on scientific grounds, so that even interesting areas where there is a conflict of interests have been selected. The work has partly implied a heightened level of ambition and partly has secured protection for habitats that traditionally are not the focus of Swedish nature conservation (like aquatic nature types and beach environments).

One also needs to assess what the protection means in practice. Does it secure the areas' long term nature values or can they still be exploited? Do they receive proper management that maintains the nature values or are areas becoming overgrown? To find the answer to such questions one needs clear goals – conservation goals – for whatever one wants to protect. Such goals should be formulated for each type of nature and species as motivation for the protection in the individual area. The goals should describe what should be the status of the different habitats and species (see the description of the term "favourable conservation status" in the Swedish Natura 2000 Handbook). By following up on these goals, one will find out whether the protection and management really secures the values one wanted to protect.

Management is a key issue. In Norway assessments¹ have been made that approximately 30 per cent of the protected areas are threatened. If the State does not take care of the protected areas, there is a risk that confidence in and sympathy for the protection will diminish. The task of managing the protected areas contributes to the economy of the local citizens and gives efforts for biological diversity a local anchorage. When the State chooses to protect areas, it is highly important that it follows through on the undertaking and carries out management that secures that values are upheld.

4.5 Indicators

Only one of the eighteen main indicators focuses on inland biological diversity (the population of certain types of birds). This is a bit too few and the trend for this one indicator is unclear. Also, the information it provides is not representative for the whole country. The indicator needs to be developed or supplemented.

In the 2003 action plan the following indicators are included for biological diversity:

- share of Norway's area that is protected,
- the number of threatened species (and share of all examined).

¹ Riksrevisionen, doc no 3:12, 2005-2006

It seems appropriate again to value the above indicators and similar indicators from the EEA's, EU's and OECD's indicators for biological diversity and Norway's excellent national key indicators. Indicators for the state of the environment are certainly a good thing. However, in Norway's case we think that realization indicators also would be suitable. One possible such indicator could be: share of threatened nature types and species that are protected and receive management according to a management plan. For the threatened species one could monitor some of the categories of threat.

4.6 Conclusions and recommendations

- The goals in the strategy should be made more precise and specific and easier to follow up. They should be broken down to clear and implementable policy targets. It should even be possible to break the goals down to a local level. There should be a clearer link between targets and policy measures. It should also be clarified who is responsible for implementing the different measures.
- The resources spent do not match the high level of ambition stated in the goals. Increased funding is necessary to reach the 2010 goal. The most threatened habitats and species should be given priority. Work with surveys, redlists and other acquisition of knowledge should all be strengthened to gain a long-term good foundation for the continued work after 2010.
- The system for management of the protected areas should be improved. Norway has exceptional qualifications to succeed with the management, due to its scattered population. Management plans with conservation goals should become mandatory by law. Norway should also make the process of protecting and managing nature areas become more flexible. With clear targets and guidelines, decisions about nature reserves and management plans could be made at a lower level than the national. The new law on nature protection should secure that important areas for biological diversity get a stronger position in relation to other interests. This should be combined with an information campaign.
- The indicators should be overlooked and further developed with additional indicators for protection, management and for threatened species.
- Norway would gain from copying the EU Natura 2000 system to a larger degree. Not being a member of the EU, Norway has the opportunity to use the Natura 2000 system and adapt it to Norwegian conditions. The follow up procedure for Natura 2000 (article 17 of the Habitat directive) now taking place within the EU can be used to find out the status in Norway and for a direct comparison with other countries.

5. Trade and foreign aid

5.1 Introduction and delimitations

This chapter focuses on the policy area "International cooperation to promote sustainable development and combat poverty" and in the first hand comments on existing strategies for international development cooperation and trade policy (in a broad sense) towards low income countries.¹ The chapter is not a complete review neither of the policies for development cooperation nor of the trade policies that affect the low income countries. The aim is rather to identify some unclear points and potential conflicts in the existing strategies and on the basis of this suggest concrete measures. Uganda has been used as a case study (see appendix). The case study should be seen as an example that is not necessarily representative for Norway's relations to other low and medium income countries.

This chapter focuses primarily on the processes that are mirrored in the two indicators used for this policy area. There are also several processes that are not mirrored in the indicators, but which are relevant for sustainable development. Thus, there is an action plan for environmental aspects of development cooperation, and an action plan for trade and development is currently being made in the Ministry of Foreign Affairs. Substantial resources have been allocated for this purpose.

5.2 Trade

Trade – particularly exports from low income countries – is seen as an important instrument to achieve economic growth. Yet in the literature the causality is disputed: does economic growth lead to increased exports or does increased exports lead to economic growth? To the extent that causality runs in the latter direction, there is a potential for increased exports to contribute to sustainable development, by giving access to a larger market than the domestic and so contribute to long term economic growth.

But the mechanism is not problem-free, and there are two things in particular that lead to potential conflict. Firstly, it is not self-evident that increased economic growth contributes to sustainable development. This is the classic conflict between economically sustainable and ecologically sustainable development, and manifests itself in extensive environmental damage in countries that are going through rapid industrialisation. Secondly, there are no clear and explicit mechanisms that ensure that increased economic activity will occur in activities or sectors that promote sustainable development. It is quite possible that the sectors where low income

¹ The term "low income countries" here characterizes the countries (112 of them) that are classified by the World bank as "low-income" or "lower-middle-income" and that have a 2005 GNI per capita below US\$3,465. It is important to keep this term separate from the so called. LDCs (LDC; least developed countries) that constitute the 49 countries with the lowest GNI per capita.

countries enjoy comparative advantages are intensive in the use of e.g., non-renewables. In that respect the new donors that have established themselves, above all in Africa – e.g., China in Zambia – are a case in point.

The world's 49 poorest countries (the so-called least developed countries, LDCs) benefit from custom and quota-free access for all EBA goods¹ that are exported to Norway. For the remaining poor countries, however, the average level of taxes for agricultural exports is relatively high. Nevertheless, the imports of goods from least developed countries are very small and furthermore dominated of second-hand ships from Liberia. The reasons for the limited import from LDCs have not been fully investigated.

Norwegian agriculture is protected from outside competition more than is the case in most other OECD countries. The main reason is a wish to maintain a viable and vital countryside; to safeguard a sustainable development at the local level. To the degree that reduced protection of Norwegian agriculture would lead to increased imports of agricultural products from low income countries, this points to a conflict between local and global sustainability. It is however important to keep in mind (i) that the connection between economic growth and export is controversial, so it is not self-evident that increased export leads to increased growth, therefore trade liberalization might be an inefficient way to contribute to sustainable development; and (ii) a substantial part of exports from low income countries does not compete with Norwegian production, so the effect of a partial trade liberalization on Norwegian agriculture could be negligible. In order to formulate a suitable trade and aid policy for sustainable development, it is of great importance that the connections between export and economic growth in low income countries and import and local agricultural production in Norway are investigated through empirical studies.

It should also be mentioned that the protection in the form of customs, quotas and agricultural subsidies that is found in Norway is complicated and not intuitively easy to understand from the motivation of maintaining a viable domestic countryside. It is for example hard to understand why palm hearts, coconuts and bamboo oil are burdened with import taxes. One can also speculate on why a tax on 10.75 per cent is imposed on a man's pyjamas whereas the tax for a corresponding garment for women is only 6.9 per cent.

As a side effect of the increased global integration, regional trade areas have become more and more important, even among low income countries: during the current decennium trade between countries in the South has grown twice as fast as the world trade. What is characteristic is that most regional trade blocks have one country that functions as an engine for trade, for example Kenya in EAC, South Africa in SADC and Malaysia and possibly Thailand in ASEAN – a growth pole. The least developed countries' ability to grow through export then becomes dependent on the willingness to import, and as an extension, on the economic development in

¹ EBA means Everything But Arms, that is all export except arms.

that pole. To limit the poles' access to markets in the industrial countries can then indirectly have a negative effect on economic growth in the LDCs.

An important way in which Norway can contribute to increased export from low income countries is via directed efforts through aid organizations, primarily Norad and NORFUND. This strategy seems appropriate given the weight Norway places on developing trade and industry in the recipient countries. However, the emphasis on creating a viable private sector in several documents¹ is not mirrored in the annual allocations for this purpose. In 2005 Norad and NORFUND spent in all 5.6 per cent of the total aid budget on trade and industry support (including multi support).

5.3 Aid

Norway is – measured as share of national income – one of OECD's most generous donors. Admittedly, the level of aid as a percentage of GNI has been falling through the most of the 1990s, but from the beginning of the current decennium still is far above the OECD mean and with a clear margin above the UN goal of 0.7 per cent of GNI. The ambition is to come back to the level of aid of one per cent of GNI that Norway reached in the early 1990s. In volume, the aid is growing rapidly because GNI has increased faster than expected.

The main part of Norway's foreign aid goes to the poorest countries – above all in Africa (of the ten largest recipients seven are in Africa).

Approximately two thirds of the support goes to social sectors (i.e. education and health), social infrastructure and disaster relief. The remaining third goes mainly to multisectoral support (primarily different types of budget support). A substantial part of Norwegian aid is channeled through multilateral organizations, both as general budget support (roughly 30 per cent of total aid) and so called multi-support (roughly 15 per cent).

Norway gives aid to a large number of countries – around 120 according to DACs latest *Peer Review*. An important reason for this is that much of the aid is channeled through Norwegian NGOs. For many countries that receive aid, the Norwegian contribution, in time or volume, is marginal: the 20 largest recipients get approximately two thirds of the bilateral support. Other important reasons for the large number of countries receiving support is that scholarships for students from low income countries and the first year's support for refugees are classified as bilateral support, according to DAC's guidelines. The reason for and logic behind this is not quite clear.

Norway has identified seven main partners of cooperation (*hovedsamarbeidslandene*) where cooperation is to be continuous and long term. However, the share of Norwegian aid that goes to these countries has fallen over time; as further confirmation the DAC's *Peer Review* notes that

¹ Among other things the government's strategy for business development (1999), the action plan for combating poverty (2002), the white paper and action plan for agriculture development (2004) and the foreign aid proposition (2007). See further DAC's *Peer Review*, chapter 3.

only two of the seven main partners are on the list of the five largest receivers, that one of the seven – Bangladesh – does not belong to the twenty largest receivers, and that Afghanistan, which is not a main partner, in the early 2000s received four times as much aid than Nepal – which is a main partner.

In the aid bill for 2007 the Government has formulated a number of concrete suggestions for a more focused aid. Thus the large increase in volume will be allocated to the sectors in which Norway is considered to have a high level of competence (five sectors). An increase in the share of aid that goes to the main partner countries is also expected. The process to concentrate Norwegian aid to the countries and sectors where it is expected to do most good has thus started.

During the last two decades Norwegian aid – like aid from a majority of OECD countries – has been focused more and more on social sectors, primarily health, education and population issues. From a sustainability perspective there is reason to question this trend. Even if efforts in social sectors have a direct influence on poverty in the receiving country it is far from self-evident in what way the effects of these efforts remain after the flow of aid is stopped or diminished. Experiences from Africa in the 1980s suggest that a one-sided focus on social sectors can lead to lock-in effects, where the donor sees itself compelled to continue the financial support as the State in the receiving country lacks resources to take over responsibility for financing running costs. The risk for increased dependency on aid is obvious.

A substantial part of Norwegian aid is channeled through Norwegian NGOs. Out of the means that were channeled through Norad and the embassies to NGOs and Norwegian research institutions in 2005, 7 per cent went to local, regional and international NGOs, a little more than 60 per cent to Norwegian NGOs and a little less than 8 per cent to Nordic research institutions. Even if more than 100 Norwegian NGOs receive support via Norad, the five largest received almost half of this (44 per cent).

It is unclear to what degree Norwegian NGOs are best suited as channels for Norwegian aid; an explicit list of applied criteria is warranted. But even if this should mean that a smaller share of the aid would be channeled through Norwegian NGOs it is important to remember that there is probably a connection between the willingness to give aid and support for domestic NGOs, and that a concentration in this area may have negative effects on Norwegian tax payers' generosity. The PR effect in this case must be weighed against the efficiency aspect.

The trend in international aid during the latest decade is characterised by terms like "ownership" and "mutual accountability". The PRS process – that Norway supports and in some instances has been spurring – has meant increased demands on donors to make long term agreements and to deliver what has been promised. There are still improvements that can be made in this respect from the Norwegian side. A simple analysis – using data from

DAC¹ – shows a high degree of volatility in Norwegian aid. Of special importance is that the amount that is actually payed out (*disbursements*) as a share of the amount that has been promised (*commitments*) varies a lot from year to year and this volatility is considerably higher for Africa than for cooperating countries as a whole. The process to improve continuity and stability in the aid flows has however started: in 2006 Norway signed a long term agreement with Moçambique and, according to the aid bill for 2007, intends to do the same with a number of other countries in Eastern and Southern Africa.

It is also unclear to what degree Norwegian aid responds to the results of evaluations delivered by Norad, or internationally. The allocation with regard to countries, sectors or modalities seems to be relatively insensitive to the conclusions from Norway's rather extensive evaluations of aid activities. This could be related to the fact that a formal system for feedback (like i.e. a Management Response System) does not seem to be in place or at least not in function. There are no formal instruments for learning from experience or to feed this experience back into operative activities.

5.4 Indicators

A volume indicator is used for aid which measures aid as share of GNI. The indicator measures Norway's generosity, but says little about how effective Norwegian aid really is, and to what degree the aid for poor countries actually contributes to a global sustainable development. Neither can this indicator capture the diffusion of aid between sectors and countries.

For trade a main indicator is used that measures Norwegian imports from the LDCs. Even if volume of imports as well as imports from LDCs as share of total Norwegian imports are mentioned as possibilities, it appears from NOU 2005:5 that the latter is the indicator that should be used. Apart from the problems that exist with regards to knowing which country a commodity comes from, it is unclear what this indicator captures when it comes to sustainable development in LDCs, in other low income countries or in Norway. Above all variations in the total Norwegian import will influence the indicators in a misleading manner, particularly when considering that imports from LDCs are so small relative to total imports.

Further indicators are desirable, in order to measure in a better way the complex process that sustainable development implies, to better capture the trends that Norwegian government is trying to measure and to make it easier to communicate progress to the Norwegian public.

It is, for example, desirable with indicators that capture the following:

^{1 1} The data source is the DACs CRS database (<http://www.oecd.org/dataoecd/50/17/5037721.htm>). The aid that has actually been paid out (disbursements) has been divided with the aid promised (commitments) for the period 1970-2004. This series has been calculated in part for Norway's total aid, in part for Norway's aid to sub-saharan African countries.

- The volume of aid in relation to other quantities, particularly the State pension fund, where the guidelines for making investments in the latter should be analysed from a global sustainability perspective;
- The quality of aid: what good does Norwegian aid do? An indicator of this type can contribute to two things: first, generate quantitative indicators for future allocation decisions in order to improve the fulfilment of goals in aid policy, second, to increase the legitimacy of aid in the eyes of Norwegian taxpayers;
- The existing indicator for trade – imports from LDCs as share of Norway's total imports – should be replaced with an indicator showing the LDCs export to Norway as share of the LDCs total exports. Obviously this should be supplemented with an indicator measuring the LDCs growth in exports in general, as Norwegian aid could stimulate LDCs export to other countries than Norway.

Such an indicator for trade should also be supplemented with an indicator which measures changes in the exporting country's industrial structure in order to capture the effect of a sustainable development. Ideally it should be coupled to the structure of the direct investments made with Norwegian public funding. It is doubtful however if existing statistics makes the construction of a reliable indicator possible, even though the government, through standardised collection of data from embassies, most likely would be able to develop an appropriate database.

5.5 Conclusions and recommendations

Trade

- The structure of the agriculture protection is unclear. Certain goods are subject to import barriers even though they do not compete with Norwegian goods. Other goods, which are similar both in contents and production, are met with different customs rates. Furthermore, a conflict between global and local sustainable development – from a trade political view – only exists if widened liberalization partly increases imports from low income countries, and partly leads to reduced production in Norwegian agriculture.
- The effects on Norwegian agriculture of widened trade liberalization should be investigated.
- The different forms of support should be reviewed and customs and quota rates should be rationalized.
- The costs for the consumers of the current trade policy, in the form of higher prices and a limited range of goods, should be made explicit to the voters.
- Further trade liberalization should be considered, particularly for low income countries which are not classified as LDCs. This serves a double purpose: first, it can contribute to sustainable development in these countries; second, the development of regional poles can have a positive effect on developing the export industry in the LDCs. It is also unclear what obstacles prevent increased exports from poor countries to Norway. Without this knowledge, a rational policy for

stimulating sustainable development in low income countries can hardly be formulated.

- The activities – above all by, but not limited to, NORFUND – which aim to promote sustainable development in businesses in Norway's partner countries should focus on activities that (a) support development of export industries; and (b) promote a structural change towards a more sustainable development in the receiving countries. This will most likely demand a review of NORFUNDs guidelines and a concretizing of the concept sustainable development at the industrial level.

Aid

- Clarify the development model that makes a focus on social sectors rational. In particular, the sustainability of the Norwegian aid structure should be taken into consideration.
- Speed up the concentration process that is signaled in the budget bill for 2007. The government's ambition to increase the share of budget support is good, but there is reason to keep attention to the demands for discipline and control in the receiving country's handling of aid.
- Carry out a review of the cooperation with Norwegian NGOs with a particular focus on (a) the level of special competence in these organizations; and (b) the connection between channeling aid through these organizations and public support for aid. Weigh the costs and benefits of channeling a larger share of catastrophe relief through multilateral organizations.
- The evaluative function in Norad should be strengthened and an explicit feedback mechanism introduced. A separate – and independent – evaluative function with the purpose to evaluate work for sustainable development should be considered.

Indicators

- The indicators for trade should be changed or supplemented in at least four aspects:
 - The trade indicator should be exchanged with an indicator which measures how large share of exports from LDCs goes to Norway;
 - The trade indicator should be supplemented with information about export growth in the LDCs;
 - An inquiry should be initiated which studies how sustainable production in the exporting countries can be measured; and
 - Norway should consider including an indicator which reflects the costs Norwegian consumers suffer as a direct consequence of protection against competition. This indicator is most relevant for the agricultural and textile sectors.
- The indicator for aid should be revised and supplemented:

- A focus indicator which indicates the concentration of Norwegian aid, in terms of countries and sectors, for example in relation to comparable ("like-minded") donor countries. In this respect existing *fragmentation indices* can be used as a starting point;
- An indicator that sees the volume of aid in relation to the Norwegian wealth, primarily considering the State Pension Fund – Global, where the investment mandate partly overlaps with the mandate for Norwegian aid; and;
- An indicator for the efficiency of Norwegian aid. The follow-up may be done by systematised collection of data via Norwegian embassies in the cooperating countries.

6. Final comments

In case Norway wants to proceed with some kind of external evaluation in the future, we want to point to some possible alternatives.

One opportunity is to follow the routines used by, among others, the OECD/DAC for *Peer Reviews* of member states' development policies. These are conducted on a regular basis with evaluators from different countries. The routines include describing in the following report how recommendations have been followed up since the last investigation.

A second possibility is to already in the budget proposition for 2008 announce that a follow-up – by external evaluators – will be made after, say, three years. This time span should be sufficient for reviewing the recommendations we have given and, where appropriate, implement them.

A third possibility is to establish a free-standing body with the task to follow up the implementation of policies for sustainable development (see section 2.7 above). Such a body could follow up policies on a continual basis and study effects.

The challenge is to integrate sustainable development into policies. This should be considered a long term process, demanding political commitment, continuity and far-sightedness.

ANNEX

ANNEX: Tracing the sustainable development agenda in Norwegian development policy: A case study of Uganda

By Joseph Enyimu

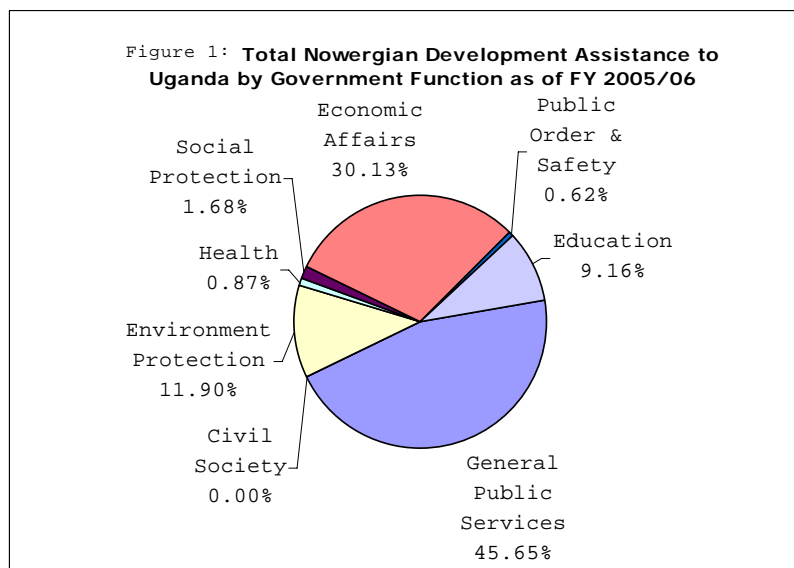
Introduction

The commitment to eradicate poverty in Uganda draws its impetus from the Poverty Eradication Action Plan which was formulated in 1997 and serves as the overarching national development planning framework. The PEAP also interfaces with the Millennium Development Goals (MDGs) which are globally agreed international development commitments and doubles as Uganda's Poverty Reduction Strategy Paper (PRSP).

Uganda has registered steady progress in its poverty reduction efforts under the PEAP and the different economic and governance reforms that preceded the PEAP. Despite having one of the highest population growth rates in the world (3.4%), the proportion of people living below the national poverty line in Uganda has steadily declined from 56% in 1992 to 31% in 2006 with a slight trend reversal in between – from 34% in 2000 to 38% in 2003. Government's aim is to reduce this proportion to 10% or less by 2017.

There are many explanatory factors for the poverty decline in Uganda. Among them is the strong support the government has enjoyed from its development partners. Uganda significantly benefited from both the Heavily Indebted Poor Countries Initiative (HIPC) and the Enhanced HIPC which it qualified for in 1998 and 2000 respectively. The two HIPCs were to reduce Uganda's debt by US\$1 billion in present value terms (US\$1.87 billion in nominal terms). In addition to the HIPC debt relief, Uganda has qualified for debt relief under the Multilateral Debt Relief Initiative (MDRI) in 2006 under which it is to benefit a USD 3.48 billion debt write-off from its multilateral creditors. Coupled with the proceeds realised from these debt relief initiatives is the Official Development Assistance (ODA) that the government of Uganda has always enjoyed from its development partners, including the Norwegian government.

The Structure of Norwegian ODA to Uganda



Source: GoU.

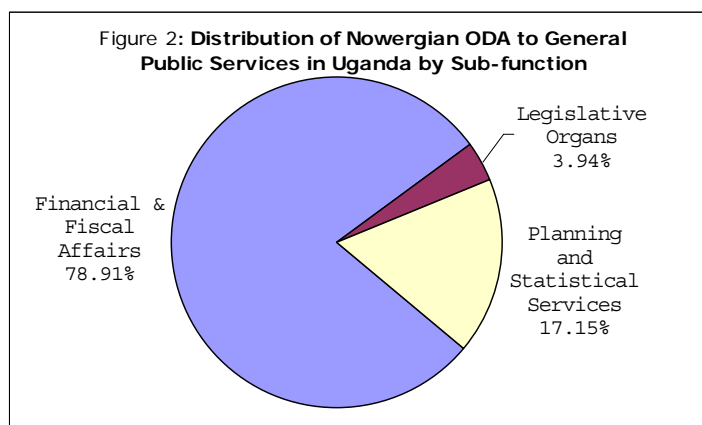
Norway is one of Uganda's long standing development partners. Total disbursements of Norwegian bilateral ODA to Uganda as of the close of Uganda's Fiscal Year (FY) 2005/06 amounted to USD 211,118,948. This is against a total commitment of USD 251,951,444 representing a disbursement level of 83.8%. Of the total Norwegian bilateral ODA so far disbursed to Uganda, 62.6% (USD 132,237,076) was disbursed over the period leading up to and including FY 2001/02. The other 37.4% (USD 78,881,872) was disbursed over the last four fiscal years (FY 2002/03 to 2005/06), and all of it was in grant form. Considering the last four fiscal years, this translates to an average annual ODA disbursement level of approximately USD 19.72 million.

Norwegian ODA accounted for 2.16% of total ODA to Uganda over the period FY 2001/02 to 2005/06 and 4.61% of ODA from the EU to Uganda over the same period¹. A breakdown of Norwegian ODA to Uganda by government function as per the International Monetary Fund's Government Finance Statistics (GFS), 2001, Guidelines (Figure 1) shows that the general public services function has to-date received the largest share of Norwegian ODA to Uganda (45.65%). Next is economic affairs function with a share of 30.13%, followed by the environment protection function with a share of 11.90%. These three functions account for over 87.68% of Norwegian ODA disbursements to Uganda to-date.

¹ This excludes off-budget support such as emergency relief through multilateral agencies and support to NGO:s.

How consistent is Norwegian ODA to Uganda with the Sustainable Development Agenda?

Sustainable Development (SD) is defined, in its simplest terms, as integrating the economic, social and environmental objectives of society, in order to maximize human well-being in the present without compromising the ability of future generations to meet their needs¹. That means that as far as SD is concerned, budget (or ODA) sizes by themselves do not mean much. However, coupled with the appropriate mechanisms and processes that underpin sustainable development, budget sizes can mean a lot for the SD agenda, especially in developing countries. These mechanisms and processes usually have to do with the presence and effective functioning of democratic public institutions. This explains why it is imperative for ODA to first of all target the establishment of effective democratic public institutions in terms of the sequence of the interventions it finances. Without the mechanism and processes embedded in effective democratic institutions, chances are high that ODA-financed interventions may simply amount to a set of isolated development measures as opposed to systematic steps in the process of sustainable development as rightly observed by the Norwegian government².



Source: GoU Statistics.

In light of the above, the fact that the general public services function enjoys the largest share of Norwegian ODA to Uganda is a positive indicator of the presence of the SD agenda in Norwegian development policy in Uganda. It is also consistent with the overall outlay distribution pattern of the government of Uganda for FY 2005/06 where general public services accounted for the largest share of outlays (29.62%)³. The share of a single development partner's ODA to a particular government function must of course be seen in light of the total support that that particular sector enjoys from the government's own resources and the rest of the other development partners.

¹ OECD (2001: 11), Strategies for Sustainable Development: Guidance for Development Cooperation.

² Royal Norwegian Ministry of Foreign Affairs (2005:142), Report No.25 to the Storting.

³ Ministry of Finance (2006), 2005/06 Annual report of Government Outlay Analysis.

A breakdown of Norwegian ODA to the general public services function by sub-function (figure 2) reveals further the strategic posture of Norwegian ODA in regard to Uganda's sustainable development. One of the cardinal principles of sustainable development cooperation is that development assistance should be aimed at supporting partner countries build strategic planning frameworks that help to ensure genuine country ownership of their development process. According to the OECD, a strategy for sustainable development comprises "a co-ordinated set of participatory and continuously improving processes of analysis, debate, capacity-strengthening, planning and investment, which integrates the economic, social and environmental objectives of society, seeking trade offs where this is not possible". This kind of a process can only be effective if planning and statistical services are providing the information to inform it; hence the significance of Norwegian support to the planning and statistical services sub-function of the government of Uganda.

The PEAP also serves as Uganda's National Sustainable Development (NSDS) strategy and does meet the OECD DAC principles for NSDSs in many respects. The contribution of Norwegian ODA to Uganda's sustainable development therefore hinges on the degree to which economic, social and environmental objectives are integrated in the PEAP and other sub-national planning and budgeting frameworks. It is the view of the Ugandan government that because Norway and other like-minded development partners devoted a significant share of their ODA in support of general public services including the planning and statistical services that inform the PEAP and the national budget, the other sector-specific interventions that have benefited from Norwegian ODA (primarily economic affairs and environmental protection) stand a higher chance of being sustainable. This is because they were undertaken within a planning and budgeting framework where effort was made to integrate national economic, social and environmental objectives. The need to enhance this approach is well illustrated by the cost that Uganda's economic and social gains are imposing on its environment.

Uganda is internationally recognized for its deep and sustained commitment to economic and governance policy reforms which have yielded steady gains in poverty reduction. The benefits of these reforms have, however, been accompanied by some unwelcome developments in the Environment and Natural Resource (ENR) sector. Evidence on the environmental impact of Uganda's economic and social achievements shows that Uganda needs to do more to ensure that its development is sustainable. Natural resource degradation in Uganda is estimated to cost as high as 17% of Gross National Income (GNI) per year, of which 6% consists of forest degradation and 11% soil degradation¹. This shows that Uganda

¹ The Role of Environment in Increasing Growth and Reducing Poverty in Uganda by Gil Yaron and Yakobo Moyini with David Wasike, Maxwell Kabi and Mildred Barungi, report for DFID, October 2003. The estimate values soil nutrients at replacement cost rather than

needs to focus both on development effectiveness and sustainability. Therefore, the fact that economic services and environment protection enjoy 2nd and 3rd rank in the allocation pattern of Norwegian ODA to Uganda is both significant and timely because it is in line with a major sustainable development need in Uganda.

Besides the distribution pattern of ODA across government functions, the modality through which ODA is provided plays a significant role in advancing the SD agenda in developing countries. The two main modalities used in providing ODA to developing countries are Project Support and General Budget Support (GBS). GBS is generally considered to be a superior modality over Project Support¹. In Uganda GBS is preferred over budget support because it respects the government's fundamental role in setting national priorities². A look at Norwegian bilateral ODA by modality of provision shows that only 46% of it was provided as GBS over the last four fiscal years (FY 2002/03 to 2005/06). This means that over half of Norwegian aid is in forms that are not flexible enough to allow the government of Uganda to use it for its more critical priorities. While they may be valid reasons for Norway's decision to channel its ODA in this manner, the consequences on the SD agenda are by and large negative. Therefore, in order to better align Norwegian ODA to SD principles, Norway needs to further buy into the GBS modality in its provision of ODA to Uganda.

Total Bilateral Assistance for Uganda by Channel of Assistance, 2005

<u>Channel of Assistance</u>	<u>Percentage</u>
Government-to-government, etc*	43.9%
Norwegian NGOs	33.4%
Local NGOs	1.0%
Regional NGOs	0.1%
International NGOs	1.0%
Nordic research institutions/foundations	0.7%
Multi-bilateral assistance**	19.8%
Total	100.0%

* Including public institutions, consultants, private sector, etc

** Earmarked assistance channelled through multilateral organisations

Source: Ministry of Foreign Affairs, Norway

Is Norwegian development policy contributing to preparing Uganda for the strategic place it needs to assume for it to gainfully participate in the emerging global economic order in a sustainable manner?

marginal impact on productivity; the effect on productivity is likely to be smaller than the replacement cost, but may well still be very significant. Other forms of environmental degradation are small in value relative to these two.

¹ Paris Declaration on aid effectiveness.

² GoU (2001), PEAP Volume III: Building Partnerships to implement the PEAP.

Uganda is one of the two pilot countries where Norway is implementing its new strategy for support for private sector development in developing countries¹. Under this new strategy, the Norwegian government aims to provide support to developing countries on the best possible terms for value creation for national and international business and industry in individual partner countries. It does this through the following measures:

- i) Promoting better framework conditions for business and industry in partner countries;
- ii) Mobilizing the resources and expertise of industries and companies in developing countries; and
- iii) Using the Norwegian private sector in the implementation of its official development policy.

Private sector development is one of the main priorities of Norwegian development policy in developing countries. According to the Norwegian government, this is because “companies and manufacturers in developing countries are the bedrock for value creation that is required to fight poverty and achieve the UN Millennium Development Goals”.² This view is consistent with evidence on the trend of South-South trade and the role this trend is playing in reducing poverty in the countries responsible for it as illustrated in Box 2.1.

Box 1.2: The Trend and Pattern of South-South Trade in relation to Global Trade

Trade statistics show that today, the South is increasingly important as a producer, trader and consumer in global markets, currently accounting for some 30 per cent of world trade. Over 40 per cent of all goods exported by developing countries, including basic commodities and manufactures, are today directed to other developing countries. South-South trade is increasing at an annual rate of 11 percent – nearly twice as fast as total world trade. The composition of trade between developing countries has changed as well, as these countries begin to export more manufactures than primary commodities, their traditional bread and butter. The share of manufactures in developing-country exports has climbed steadily, from 20 per cent, \$ 115 billion, in 1980 to nearly 70 percent, \$ 1.3 trillion, in 2000....More than two thirds of South-south trade originates from and is destined to developing countries in Asia. The share of intra-developing country exports in Asia rose from 60 percent in 1990 to 66 percent in 2001, while the share of the other developing countries – Latin America, Africa and the Middle East – suffered a decline.

As far as Uganda is concerned, it tends to have a relatively higher share of exports destined for developed countries than most developing and less developed countries. In 2004 Uganda had 54 per cent of its exports go to developed countries and 39 per cent to developing countries, with 7 per cent to unknown destinations. With imports, however, it's the other way around; Uganda has a relatively large share of imports originating from developing countries. In 2004 it had 30 per cent of its imports from developed countries and 69 per cent from developing countries, with 1 per cent from unknown destinations. These differences reflect a combination of factors including the presence of competitive advantage in different industries and the intensity with which Uganda's landlocked natural barriers take effect in different industries.

¹ The Royal Norwegian Ministry of Foreign Affairs (2004: 163), Fighting Poverty Together.

² The Royal Norwegian Ministry of Foreign Affairs (2004: 162), Fighting Poverty Together

With respect to investment, there is almost a 50:50 split between developing and developed countries in supplying FDI to Uganda. In 2005, 42% of FDI in Uganda originated from developing countries and 36% from developed countries, with a fast growing 22% from unspecified countries. African countries account for almost 50% of developing country FDI into Uganda and of this, just two countries, Kenya and South Africa dominate supply.

Source: UNDP (2005:75-76), Cooperation South 2005, GoU (2007).

The main instruments through which the new Norwegian strategy for support for private sector development in developing countries is being implemented are the Norwegian Investment Fund for Developing Countries (NORFUND) and the Norwegian Agency for Development Cooperation (NORAD), respectively. If successfully implemented, the strategy should spur a broad range of joint ventures between business and industry in partner countries such as Uganda and Norwegian companies. In the context of Uganda, the performance of this new strategy would be reflected by the size and trend of Foreign Direct Equity Investment (FDEI) originating from Norway. An overview of Norway's performance using this criterion for the period preceding the adoption of the new strategy is shown in tables 1.2 which is a breakdown of FDEI stock by source country within the EU respectively.

From Figure 3 and Table 1.2, we note that while the EU economic region accounted for the largest average share of FDEI in Uganda over the reference period (2001-2003), the portfolio of Norwegian FDEI within it was only 0.58% with a market value of slightly less than US \$ 2m¹.

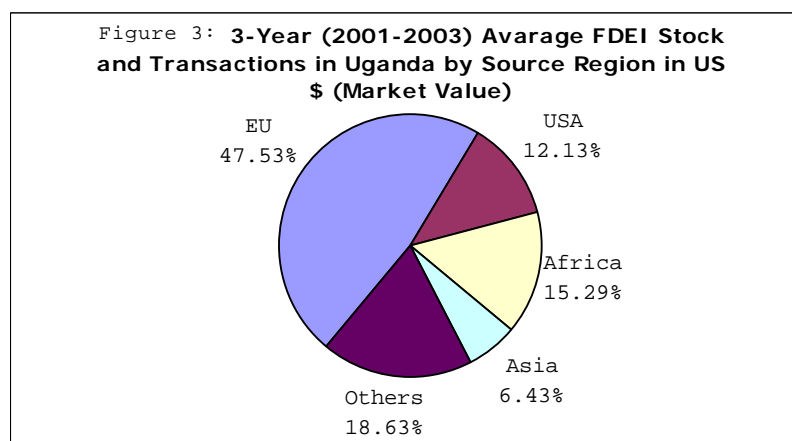
Table 1.2 **Breakdown of EU Foreign Direct Equity Investment (FDEI) in Uganda by Source Country in US\$ (Market Value)**

Source Country	End-2001	End-2002	End-2003	3-Year Av. (US \$)	3-Year Av. (%)
Austria	(23,996)	146,211	178,348	100,188	0.03%
Belgium	3,984,225	5,417,816	4,456,376	4,619,472	1.38%
Cyprus	39,029	33,233	26,844	33,035	0.01%
Denmark	1,350,251	2,011,631	1,968,620	1,776,834	0.53%
France	20,479,469	19,161,446	19,908,132	19,849,682	5.91%
Germany	1,815,899	1,820,593	3,242,995	2,293,162	0.68%
Ireland	69,687	25,534	(6,628)	29,531	0.01%
Netherlands	30,645,303	86,226,851	19,515,002	45,462,385	13.54%
Norway	1,952,546	1,939,135	1,923,554	1,938,412	0.58%
Sweden	17,351,992	17,794,086	23,451,859	19,532,646	5.82%

¹ When interpreting these data, consideration should be given to the fact that the new strategy only became operational in 2004.

Source Country	End-2001	End-2002	End-2003	3-Year Av. (US \$)	3-Year Av. (%)
Switzerland	28,898,054	28,189,540	40,208,845	32,432,146	9.66%
UK	184,209,362	213,522,981	225,330,668	207,687,670	61.86%
EU Total	290,771,821	376,289,057	340,204,615	335,755,164	100.00%

Source: Bank of Uganda



Since end-2003, NORFUND has injected additional FDEI in Uganda totalling close to USD 4 million under two main equity investments: DFCU Bank where it invested NOK 17.5 m (approx USD 2.69m) in 2004 to acquire a 10% shareholding and Uganda Micro-Finance Limited (UML) where it invested NOK 6.5m (Approx USD 1m) in 2005¹. These investments provide the capital financing required to strengthen Uganda's young private sector as well as financing for the many formal and informal micro, small and medium scale enterprises that many self-employed household depend on for household income.

While the direction of Norwegian private sector support is relevant for Uganda's development, its volume remains far less than is desired by most standards. It is also very concentrated in few sectors and this constraints its poverty reduction impact. Considering that annual Foreign Direct Investment (FDI) into Uganda have averaged over US\$ 200 million per annum over the last five years², it is evident that Norwegian private sector support and activities in Uganda remains very minimal despite the fact Uganda is one of Norway's partner countries.

Conclusion and Recommendation

The two-pronged approach of the Norwegian development cooperation policy of supporting private sector development and building the capacity of national governments to manage their development process is of high strategic importance. This is because it stresses the need to anchor Uganda's development on her

¹ NORFUND, 2005 Annual Report.

² Uganda Revenue Authority Statistics (2006).

resources and the resourcefulness of her people as also espoused by the New Partnership for Africa's Development (NEPAD) principles. Through partnerships with small and large local businesses, the strategy has effectively contributed to expansion of employment opportunities for households as well as expansion of the national tax base. This in turn contributes to meeting the MDGs by providing the incomes needed to lift households out of poverty and tax revenues to finance delivery of public service.

The allocation pattern of the Norwegian ODA to Uganda is also to a great extent consistent with the gaps and needs in the government of Uganda process of integrating its economic, social and environmental concerns. Norway can and should, however, do better in terms of improving the share of ODA it channels to Uganda using the GBS modality. In so doing, it will ensure that less of its ODA to Uganda is in conflict with the government of Uganda's fundamental role in setting national priorities.

In terms of private sector development support, for Norwegian ODA support to Uganda's private sector to impact better on poverty reduction and the MDGs, it needs to be accompanied by an increase in the volume and diversity of investments. The agricultural sector where the largest share of households (including the poor) derive their livelihoods from is particularly a fitting target.

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