

## Norway: What next for the long-standing champion of high aid levels?

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### Overview

- Norway has consistently exceeded its commitment to provide 0.7 percent of GNI as ODA. For the past nine years, Norway has maintained an aid-level of around 1% of GNI,<sup>1</sup> as well as its commitment to provide 0.15-0.20 percent of GNI to the Least Developed Countries (LDCs). Current aid spending, at 1 percent of GNI, enjoys support from both the government and Parliament.
- Norway has a long-standing commitment to development effectiveness: It has managed to fully untie aid. However, progress has been slow in other areas such as the use of country systems, and medium-term predictability of ODA.
- Norway's ODA is organized around five thematic priorities: 1) Education (particularly primary education, with a focus on girls' education); 2) Health (with around half going to primary health care); 3) Humanitarian assistance (primarily emergency relief, with around 8 percent directed to disaster prevention and rehabilitation); 4) Private Sector (most of which is channeled through Norfund); and 4) Climate change (the majority to the protection of the environment).<sup>2</sup> Education and humanitarian assistance have seen the largest increases under the current government since 2013: Between 2013 and 2017, aid to education rose from 5% to 9.3% of total ODA, and humanitarian rose from 8% to 13%.<sup>3</sup>

In 2014, a process to restructure Norwegian aid was initiated. The aim was to reduce the number of recipient countries and agreements. Since 2013, the number of recipient countries has been reduced from 116 to 84, while the number of aid contracts has been halved (from over 7,700 in 2013, to around 3,300 in 2017).<sup>4</sup> This process is still being finalized, and it is unclear what the level of concentration will be.

- Norway has 24 prioritized partner countries: Eight (8) countries for long-term development cooperation; Ten (10) that are directly or indirectly affected by conflict; and Six (6) that are central to efforts to address global challenges.<sup>5</sup> In June 2018, the government published a new white paper outlining the strategic thinking on partnerships with proposals to reduce the number of partner countries.<sup>6</sup> This has not yet been reviewed by Parliament.
- Following the inclusion of the Liberal Party into the Solberg-government as of January 2018, the post of Minister for International Development was reinstated, five years after it had been abolished. Civil society, as well as many opposition parties, had called for the post to be reinstated, citing several concerns – that Norway was losing its influence in global forums; that efforts on broader development challenges had been deprioritized; and that aid and development policy was under increased risk of becoming a vehicle for Norwegian interests.
- One of the first initiatives taken by the new Minister for International Development was a reform of the current aid management model. This reform has been well received, with the recognition

that it may enhance the effectiveness of Norwegian ODA. But there are concerns that the new model may keep aid expertise separate from aid management and thus put ODA under further political control. The reform process is expected to conclude in late 2018.

- A parliamentary majority has repeatedly voted to protect the integrity of Norwegian ODA and to keep its purpose firmly centered on poverty reduction and development. However, under the current government, national interests such as migration control or national security have taken a more prominent role in the aid and development policy. The most recent example includes the government's plan to make aid conditional on the creation of repatriation agreements.<sup>7</sup>
- As Norway is not a part of the European Union, its aid is not strongly integrated into the EU's development cooperation framework. But since 2015, Norway has increased its partnership with the EU, particularly on migration and security via contributions to the EU Emergency Trust Fund for Africa (EUTF), where Norway holds a seat on the board, and in its participation in the Valetta-agreement. There are plans to further increase support to the fund (pending evaluations), and to pursue other avenues of development cooperation with the EU.<sup>7</sup>

## **Introduction**

Norway's aid imperative has traditionally been centered somewhere between altruism, solidarity, and national interests. Governments across the political spectrum have invested substantial financial and political capital towards the protection of the world's poorest and most vulnerable as well as the promotion of their rights. This has included both aid contributions and participation in international negotiations. Norway's role as a major humanitarian and development actor has contributed to the opening of doors and opportunities in bilateral as well as multilateral arenas, which would otherwise not have been available.

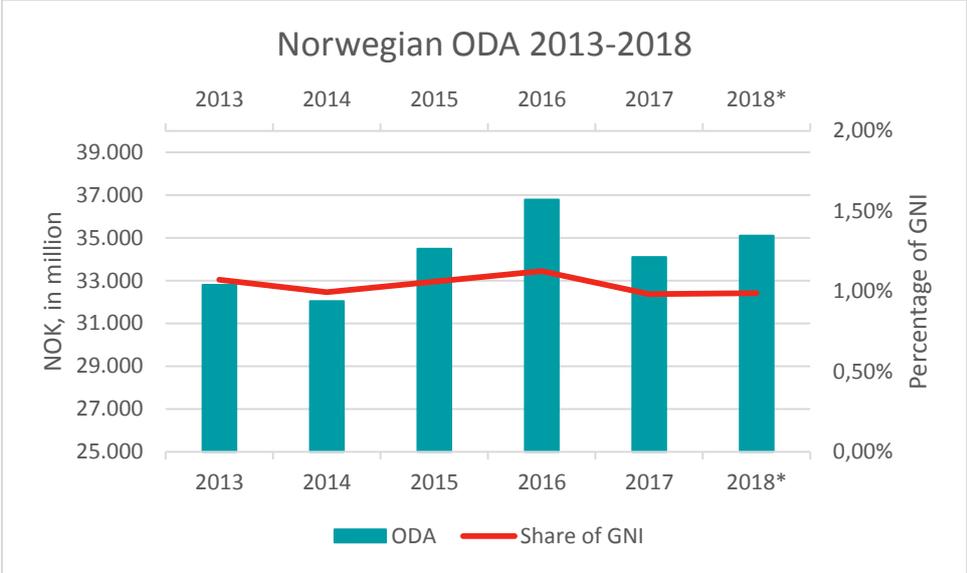
With some exceptions, there is a general consensus and broad ownership by Norway's citizens over the key priorities for Norwegian aid. Following the 2013 national elections, the social democratic coalition (consisting of the Labor Party, the Socialist Left and the Centre Party) lost the majority they had held for eight years. The election was ceded to a minority coalition of the Conservative Party and the right-wing Progress Party, which was joined by the centrist Liberal Party following the 2017 elections.

Support for aid, particularly the level of 1% of GNI, has traditionally been challenged by the Conservatives and the Progress Party. The former has always held that a focus on aid levels diverts attention from an examination of the quality of aid, while the latter is skeptical about the effectiveness of aid in general. With the exception of humanitarian aid, the Progress Party has consistently opposed high aid spending. Despite this, the 2013 change in government has not lead to lower aid levels. In fact, the government has maintained a near 1% of GNI to ODA since it came into power five years ago.

The lack of reduction in aid levels can partly be attributed to the fact that the government is a minority, which depends on the Christian Democrats for continued support in Parliament. The Christian Democrats are staunch supporters of a high financial and political engagement in development issues. Furthermore, the process by which aid and development policies are

determined entails considerable transparency, public engagement and parliamentary ownership of and control over decisions made on aid. Parliament enjoys substantial supervision of Norwegian ODA, including its priorities, strategic direction and budget.

Norway is one of only a handful of donors to have met the UN commitment to provide at least 0.7% of GNI as ODA. It is also one of few donor countries to have allocated above 0.15% -0.20% of GNI in ODA to the Least Developed Countries (LDCs). Norway has maintained above 0.7% target for more than four decades,<sup>8</sup> and in recent years, aid levels have remained stable at around 1% of GNI. Debates on aid levels have differed substantially from those happening in most other donor countries. In Norway they have focused on whether the country should maintain or exceed the current 1% level, while ensuring aid is effective and genuine. In 2015/16 there was a breakthrough when the Parliament reached a majority consensus (opposed by the governing parties – the Conservatives and the Progress party) to protect aid spending at 1% of GNI. In 2018, the government (including the aforementioned Conservatives and Progress Party) included the pledge in its new political platform.



Source: Norad's aid database

**Commitment to effectiveness and results for the poorest**

The overarching goal of Norwegian ODA is to contribute to poverty reduction and sustainable development. Additionally, there are four cross-cutting considerations deemed crucial for poverty reduction and development that are key criteria for aid allocations and agreements: human rights; women’s rights and gender equality, climate and environment, and anti-corruption.<sup>9</sup>

While the government has reaffirmed its commitment to the implementation of development effectiveness principles, progress remains slow in some areas. A commendable feature is that Norway is one of few donor-countries that has 100 percent untied aid, a key policy to ensure aid effectiveness. The OECD has pointed out that the cost of tied aid is between 15 to 30 percent, and up to 40 percent in tied food aid.<sup>10</sup>The recent white paper (2018) on partner countries in Norway’s

development cooperation, identifies national ownership as an underlying principle for cooperation, although the government notes that it can be difficult to remain true to the principle in fragile and conflict affected states).<sup>11</sup>

But, according to the Global Partnership for Effective Development Cooperation (GPEDC), there is room for improvement in other areas. For example, medium-term predictability of ODA remains low (55% of aid to the government sector), and the use of country systems has declined slightly in recent years (down from 62% of aid to the government sector in 2010, to 56% in 2016).<sup>12</sup>

Norwegian aid allocations and broader development efforts are guided by thematic priorities that have evolved and changed over the past decade. Notable changes include the emergence of climate and health as prominent thematic priorities and inequality and redistribution as an overarching priority – both are developments under the social democratic Stoltenberg II-government (2005-2013). Also, a greater emphasis has been placed on education, with a particular focus on primary education and girls, as well as an increased role for the private sector under the conservative Solberg-government (2013 to present).

Norway currently has five long-term thematic priorities that Parliament in 2017 agreed following the white paper on Norway's development efforts in the wake of Agenda 2030 and the SDGs.<sup>13</sup> These include health, education, climate and environment, private sector and job creation, and humanitarian assistance. In terms of geographical priorities, the government launched a new white paper on partner countries in June of 2018. The government has proposed 16 partner countries (ten countries are defined as countries for long-term development cooperation, and six are defined as countries in fragile contexts). Almost all bilateral aid will be allocated to these countries going forward. Aid to Norfund, support to strengthen civil society, and humanitarian assistance are not restricted geographically.

A recent assessment of Norwegian aid and its coherence to Agenda 2030's 'Leave No One Behind' pledge (LNOB) was undertaken by the Overseas Development Institute (ODI) on behalf of Save the Children Norway. It confirmed that Norway's thematic and geographical priorities broadly align with a focus on the world's poorest people and countries.<sup>14</sup> The prioritized sectors – particularly primary education, health care and humanitarian assistance – are key to the achievement of LNOB. The study also found that a high percentage of Norway's partner countries are defined as either Severely Off-Track Countries<sup>15</sup> (countries most at risk of being 'left behind' on extreme poverty in 2030) or countries with a large share of refugees and/or internally displaced people. The ODI evaluation cautioned against a focus on migration-related challenges and the potential shift whereby efforts are made to hinder migration, rather than to support refugees.

### **Increasing optimism for 'catalytic' aid: DRM and private sector**

The 2017 white-paper on development has served as a policy platform to determine the ways Norway's development efforts can and should contribute to sustainable development in line with the landmark global agreements of 2015: Agenda 2030, the Addis Ababa Action Agenda, and the Paris Agreement on Climate Change. These agreements are part of the increased optimism around 'catalytic aid'. While not a new concept, catalytic aid – the notion that relatively small public contributions can generate additional (and often private) investments – has gained traction. Coupled to this is the understanding that massive investments are needed to finance the SDGs ('moving from

billions to trillions') as well as the realization that the relative importance and size of aid vis a vis other sources of development finance has reduced.<sup>16</sup>

In terms of Norwegian ODA, this optimism is evident in the increased emphasis on the potential of the private sector and a renewal of efforts to support domestic resource mobilization (DRM). Norway's Tax for Development aid program, which focuses on the improvement of tax systems and increased tax revenues in developing countries, has had some successes since its establishment in 2011. But under the leadership of the 2013-2017 Minister of Foreign Affairs it received less political and financial attention.

At the Addis Ababa Conference in 2015, Norway pledged to double its support to technical cooperation for DRM from 2015 to 2020. Unfortunately, progress to achieving that commitment is off track. In the two years following the ATI-pledge, aid to tax reform was more than halved. Things are looking up in 2018 as this is the first year where the allocations are larger than the baseline year, and Norad has recently signed a five-year agreement on technical cooperation with the Norwegian Tax Authority. The Minister for Development has reaffirmed that the support will be doubled by 2020, and has expressed a firm belief in the potential of relatively small aid contributions to strengthening tax systems.

The bulk of Norway's aid to the private sector and job creation is currently channeled through Norfund, Norway's Development Finance Institution. By year-end 2017, Norfund's committed investment portfolio was NOK 20.4 billion.<sup>17</sup> It primarily focuses on investments to countries in Sub-Saharan Africa. There are four main areas of interest: clean energy, financial institutions, food and agribusiness, and small and medium enterprise (SME) funds.

In its annual reports, Norfund provides a descriptive overview of the development effect realized as reported by the businesses, financial institutions and sectors (e.g. clean energy) in which it has invested.<sup>18</sup> The current reporting methodology only allows for aggregated quantitative results across all companies, without a clear baseline or reporting on unintended consequences (such as risks of crowding out local businesses). There is need for documentation that examines development effects beyond taxes paid and jobs created, as well as for financial additionality of these investments. In a follow-up note to Norfund's 2015 evaluation, dated April 2018, the Ministry of Foreign Affairs reports that some changes have been made and others are underway, including measures to strengthen development impact and a related indicator framework. While inclusive economic growth and job creation are crucial components in the fight against poverty, and it is clear that the private sector has a key role to play, efforts supported by public aid should be accompanied by clear expectations of financial additionality and development impact.

### **Looming threats in the horizon: What works for development or what works for Norway?**

ODA plays a unique role in the development finance landscape. It is the only international financial flow with an expressed mandate to reduce poverty and promote development. It is therefore a major concern when shifts emerge whereby aid is being used more explicitly to advance the foreign policy and security objectives of donor countries. Aid is also being increasingly spent to prevent migration and to cover refugee costs in donor countries. Norwegian ODA has sadly not been immune to these shifts.

## **1. The use of ODA to cover in-donor refugee costs**

As with most other DAC-donors (with a few honorable exceptions), Norway reports a share of in-donor refugee costs (IDRC) as ODA. In the fall of 2015, following a large number of refugees seeking asylum in Norway, the government proposed that a record 20 % of the 2016 aid budget be allocated to cover IDRC. These costs were to be covered by slashing support to civil society by two-thirds, and by reducing the support to multilaterals and UN agencies. No assessments or considerations were made on the potential long-term consequences of these unexpected cuts. The proposal faced massive backlash from aid organizations, the government's coalition partners and several opposition parties and was finally overturned. Instead the Parliament opted for an extraordinary increase to the aid budget (to 1.1 percent of GNI), to cover the increased IDRC. The 2016-budget shows how vulnerable the aid budget can be. Apart from the smaller opposition parties there is little support for excluding or limiting the reporting of IDRC as ODA to protect the predictability of long-term aid.

Save the Children Norway and many other civil society organizations have repeatedly called on the government to stop this practice. Their arguments against using ODA to cover in-country refugee costs include three main points. First, while Norway has a responsibility to receive and care for people seeking asylum, the costs of doing so do not contribute to poverty reduction and sustainable development in developing countries, and should therefore be covered outside the aid budget. Second, the commitment to spend 1 % of Norway's GNI on ODA is often viewed as a ceiling, making allocations a zero-sum game. In choosing to report IDRC as ODA, less long-term aid is available to the poorest people and countries. And finally, IDRC is a volatile and unpredictable expenditure – great changes from one year to another are likely to be followed by an increase or reduction in other parts of the aid budget. This has the potential to hamper the efficiency and results of long-term aid. Kharas (2008) has suggested unpredictable and unstable aid has a high inefficiency cost.<sup>19</sup> Recognizing that there is a strong pressure for in-country refugee costs to be included as part of ODA, one alternative would be to agree to a maximum of 5% of ODA to cover these eligible expenses.

The government's current method of calculation of IDRC is unclear. The updated guidelines approved by the OECD DAC in October 2017 will hopefully lead to more clarity on the methodology of calculating costs. The MFA has confirmed that the new directive will be implemented in the 2019 budget.

Currently, IDRC as a share of Norwegian ODA is among the lowest it has been in the last decade. This is not due to a more restrictive calculation methodology but rather to the government's increasingly restrictive refugee-policy, which have been supported by joint EU efforts to close off external borders.

## **2. Allowing Norwegian national interests to seep into aid decisions**

Apart from the long-standing tradition of spending a chunk of the aid budget domestically, recent years have also seen a change in focus and narrative on the potential benefits of aid. Norway like all countries has its own foreign interests and the government has many ways to promote these interests, while ensuring policy coherence. Reducing poverty, building institutions, contributing to increased stability and human security– in short laying the foundations for sustainable development – are in the interest of every country, rich and poor alike. The use of ODA to build this foundation is perfectly acceptable, and even welcomed. The problematic side of national interests arises when the needs of donors move away from, or even hamper, efforts to build sustainable development, and

when scarce ODA is diverted away from its core purpose of poverty reduction. Two areas of concern stand out for Norway: migration and security.

Around the time the white paper on SDGs and development was published in 2017, another white paper on foreign policy and security was launched. The two white papers, which were adopted by Parliament in June 2017, illustrate that sometimes the lines between these interests are not clearcut. Both papers include an increased priority on vulnerable states to support their respective goals. Prioritizing aid to fragile states may be important from a development perspective as many of these countries are severely off-track to meet the SDGs by 2030 and they have huge struggles in trying to mobilize other sources of finance.

The government has demonstrated an acceptance of the risks associated with prioritizing ODA to conflict affected and fragile contexts, which has been welcomed by CSOs. On the other hand, the geographical focus remains close to Europe and with countries where large numbers of refugees come from (e.g. Afghanistan). The MFA's new strategic framework for engagement in fragile contexts and regions (2017),<sup>20</sup> as well as the 2018 budget, demonstrate how Norwegian interests related to migration and security have partly shaped the rationale and geographical focus for this ODA commitment as well the measures taken.

The strategic framework outlines how repatriation shall be linked to aid, stating that:

“Flight and migration from vulnerable states and regions affect the influx to Europe and Norway. Repatriations and migration shall therefore form an integrated and central part of the relationship to important countries of origin. It is expected that countries that receive Norwegian aid respect their obligation to accept their own citizens.”

The government's 2018 political platform pledges that Norway will trade aid for repatriation agreements. Not only is this an unacceptable use of ODA, it is unlikely that this relatively small amount of aid is an effective tool to apply pressure for acceptance of repatriation. It is also a poor use of ODA. Making aid conditional on acceptance of repatriation agreements can make aid more unpredictable and hamper effectiveness.<sup>21</sup> Trading aid for repatriation can result in long-term aid programs, such as health or education programs, being cut short if the government of the developing country does not agree to repatriation, which in the end harms the poorest population.

Norway is a signatory to the 2016 Valletta Declaration and its corresponding Action Plan, which aims to strengthen cooperation between European and African countries and address current challenges and opportunities of migration. It also provided aid to the EU Emergency Trust Fund (EUTF) for Africa, the financial instrument for the Valletta cooperation. Norway also has a seat on the Fund's board. In its 2018 work program for cooperation with the EU, the government states that further contributions to EUTF would be considered based on an assessment of the Fund's results and documented needs.<sup>22</sup> Several analyses and case-studies have pointed to serious weaknesses with EUTF. These includes poor transparency; a lack of adherence development effectiveness principles; and multiple examples where the short-term interests of donor countries have preceded the long-term development plans and needs of developing countries.<sup>23</sup>

## Conclusions:

There is much to be commended in Norway's aid and development strategies and commitments: the protection of 1% of GNI to ODA and 0.2% of GNI to LDCs; faithfulness to development effectiveness principles; the prioritization of countries that are at risk of not achieving the SDGs; and increased aid spending to areas that are key building blocks of inclusive societies, such as health, education and strengthening of tax systems.

Still, the past few years have brought some changes that may hamper the future effectiveness and pro-poor direction of Norwegian aid. The reluctance by the government and Parliament to separate IDRC from ODA (or to even set a ceiling) continues to negatively impact aid effectiveness as well as the spending to the poorest countries. The government's willingness, and sometimes eagerness, to add Norwegian interests in the aid-mix is a concern, particularly when it steers the focus towards areas beneficial to Norway at the expense of the long-term development needs and plans of developing countries.

There is need for continued engagement to ensure that aid is protected and spent where it is most needed. As protectionism and national interests are increasingly setting the tone in many countries, it is even more important for countries such as Norway to provide a counterweight and to protect the integrity of international development efforts.

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<sup>1</sup>Norad (n.d) [Milestones in Norway's Development Cooperation](#). Webpage [Norwegian only], accessed May 10<sup>th</sup>, 2018

<sup>2</sup>MFA (2017). [Meld. St. 24 – Fellesansvar for fellesfremtid](#) [*White Paper 'Common Responsibility for Common Future. The Sustainable Development Goals and Norway's Development Policy – full version only available in Norwegian, English summary available [here](#)*]

<sup>3</sup>Norad's aid database (n.d) Confirmed 2017-figures of Norwegian ODA

<sup>4</sup> MFA (2017) [Press release on 2018 aid budget](#) [only available in Norwegian]

<sup>5</sup>MFA (2017). [Prop. 1 S \(2017-2018\) – Proposisjon til Stortinget for budsjettåret 2018](#) [2018 Budget proposal for the MFA – only available in Norwegian]

<sup>6</sup>Government of Norway (2018). [Meld. St. 17 \(2017-2018\) – Partnerlandutviklingspolitikken](#) [*White Paper on Norway's partner countries – only available in Norwegian*]

<sup>7</sup>Government of Norway (2018) [Norway in Europe. The Government's strategy for the cooperation with the EU 2018-21](#) [Only available in Norwegian]

<sup>8</sup>Norad (n.d). [Norway's ODA as a share of GNI](#) [Available in Norwegian only]. Website, accessed May 10<sup>th</sup>, 2018.

<sup>9</sup>MFA (2017). '[Tverrgående hensyn i utviklingspolitikken](#)'. ['Cross-cutting considerations in Norway's development policy' - only available in Norwegian]

<sup>10</sup> OECD (2009) [Untying aid: Is it working?](#)

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<sup>11</sup>Government of Norway (2018). '[Meld. St. 17 \(2017-2018\) – Partnerlandutviklingspolitikken](#)' [White Paper on Norway's partner countries – only available in Norwegian]

<sup>12</sup><http://dashboard.effectivecooperation.org/viewer> – Monitoring data on Norway, accessed May 10<sup>th</sup>, 2018

<sup>13</sup>MFA (2017). '[Meld. St. 24 – Fellesansvar for fellesfremtid](#)' [White Paper 'Common Responsibility for Common Future. The Sustainable Development Goals and Norway's Development Policy – full version only available in Norwegian, English summary available [here](#)]

<sup>14</sup>ODI (2018). '[How can Norway implement Leave No One Behind, as a guiding principle, in its aid and development policy?](#)' [Report commission by Save the Children Norway]

<sup>15</sup>Chandy, L. (2017) 'No country left behind: The case for focusing greater attention on the world's poorest countries.' Washington DC: The Brookings Institution

<sup>16</sup>ODI Background Note: *What if development aid were truly 'catalytic'?*

<https://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/7373.pdf>

<sup>17</sup>Norfund (2018). '[AnnualReport 2017](#)'. [only available in Norwegian]

<sup>18</sup>See for example Norfund (2018). '[AnnualReport 2017](#)'. [only available in Norwegian]

<sup>19</sup>Kharas (2008) [Measuring the cost of aid volatility](#). Wolfensohn Center for Development

<sup>20</sup>MFA (2018) [Strategisk rammeverk for norsk innsats i sårbare stater og regioner](#). [Norwegian only]

<sup>21</sup>Kharas (2008) [Measuring the cost of aid volatility](#). Wolfensohn Center for Development

<sup>22</sup>Ministry of Foreign Affairs (2018). Norge i Europa. Regjeringens arbeidsprogram for samarbeidet med EU 2018. [Norway in Europe. The Government's work program for the cooperation with the EU, 2018 – only available in Norwegian]. Oslo: Ministry of Foreign Affairs.

<sup>23</sup>PWYP (2018) <http://www.publishwhatyoufund.org/putting-trust-trust-funds-eu-achieved-far/>.

Global Health Advocates (2017) *Misplaced Trust: Diverting EU Aid to Stop Migration*. Concord (2018) *Partnership or conditionality? Monitoring the Migration Compacts and EU Trust Fund for Africa*