

2009

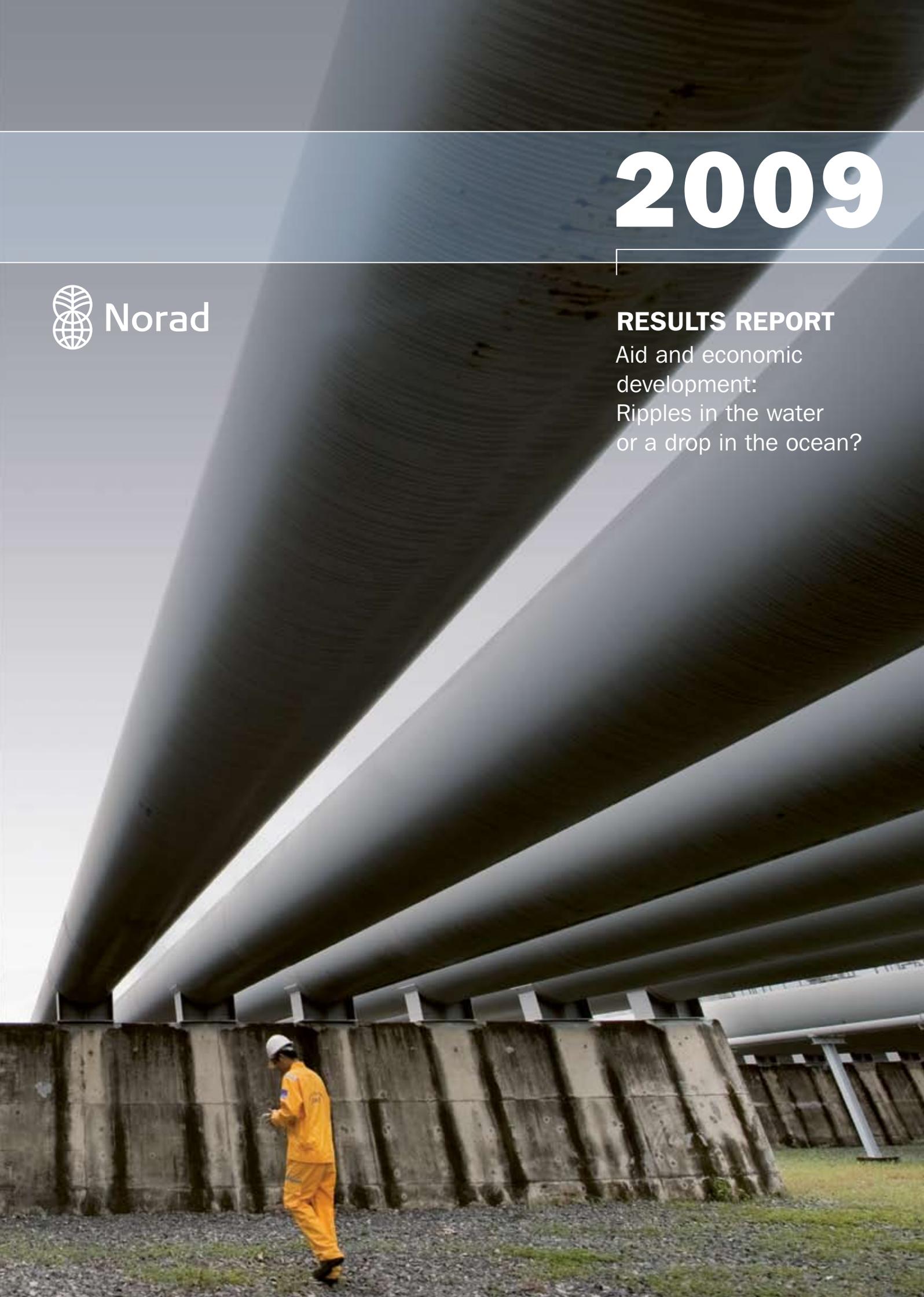


Norad

RESULTS REPORT

Aid and economic
development:

Ripples in the water
or a drop in the ocean?







AID AND ECONOMIC DEVELOPMENT – RIPPLES IN THE WATER OR A DROP IN THE OCEAN?

Norwegian and international development assistance makes a small but positive contribution to economic development, essential for poverty reduction. The results often become apparent only decades later and are achieved through nation-building and a better educated workforce. In the short term, development assistance contributes to economic governance, infrastructure, capital transfer, private sector development, agriculture, fisheries and targeted empowerment of the poorest economic actors, especially women. The results are more mixed than we might wish, but these efforts are by no means in vain, as some aid critics maintain.

Development assistance is small, both in size and as a force for change. Other capital flows to and from developing countries are both larger and more important. Most important of all are the political and economic actors in developing countries – from government leaders to small farmers.

Development assistance improves the political and institutional conditions for economic development. Examples from Malawi, Uganda and Vietnam show that the way aid is used, is more important than the amount.

The fear of mixing aid and business has vanished. But aiding individual companies and individual investments is expensive. We get more for our money by investing in framework conditions that facilitate investment and draw poor people fully into the economy. Norway's development policy has followed international trends, with a decline in aid for infrastructure and agriculture, but has supported fisheries for many years. Aid for public financial management has improved economic governance in many countries. The conditions are in place for Norway to once again focus on aid for economic infrastructure, as Norfund and SN Power are doing in the field of hydro-electric power.

Norway has consistently supported women as economic actors through micro-financing and vocational training. These measures mean a great deal for the living conditions of individuals, and with other initiatives, such as support for girls' health and education, they create better societies in the long term. In the short term, however, these women-oriented measures do not leave clear traces in terms of economic growth; they are too few and too small for that.

This is Norad's third report on the results of Norwegian development cooperation. In 2007 we asked if aid works, and answered: "Yes, but not well enough". In 2008 we examined the complex international aid system and found no clear differences in the results from the various channels for Norwegian aid.

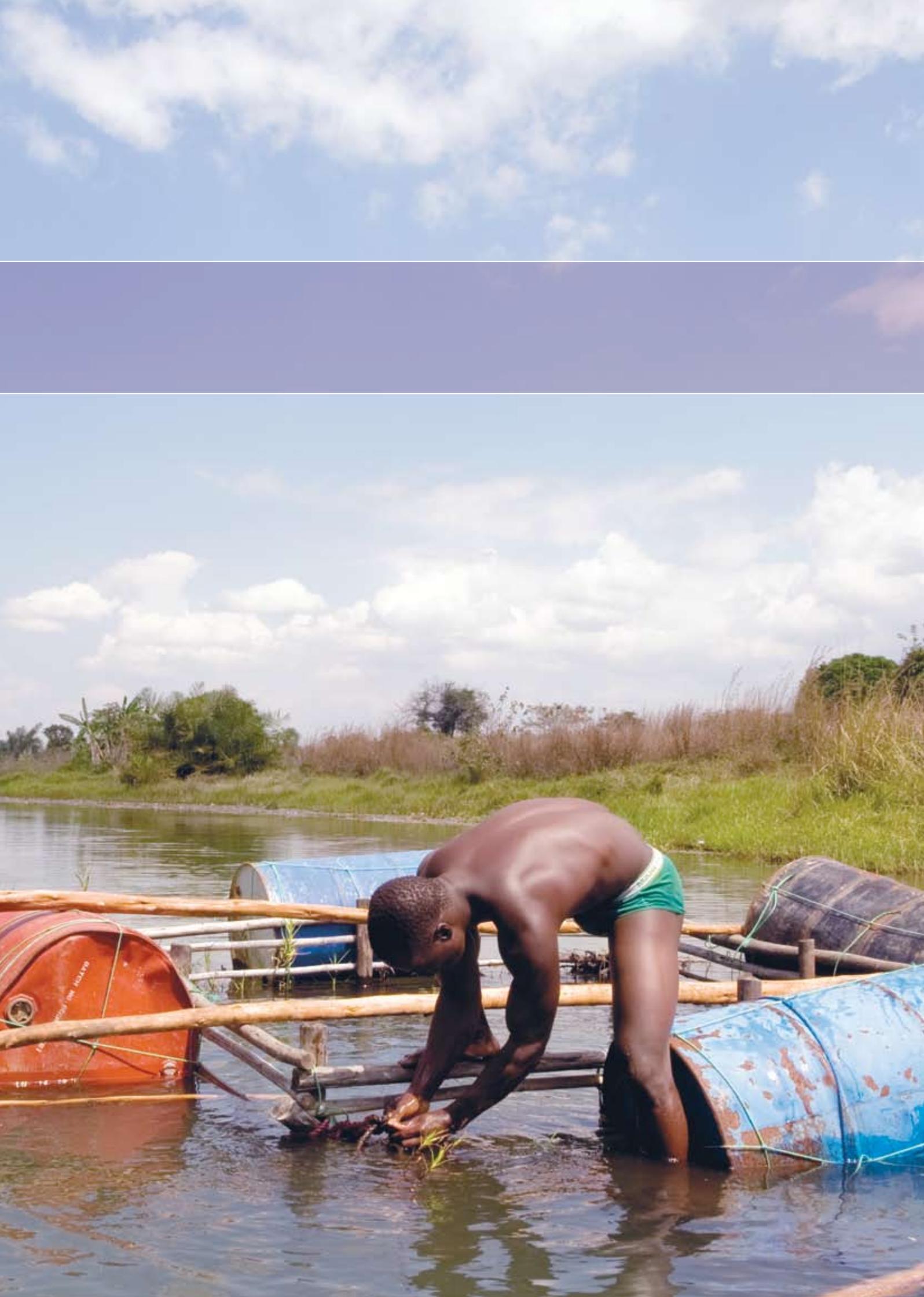
The 2009 Results Report investigates the private sector as a target, channel and partner in development cooperation. The findings are often encouraging, with many examples of positive contributions to economic development. The Report collates international research, which rejects claims that aid is wasted and undermines economic growth. The Report shows that the economic impact of Norwegian aid varies. Major initiatives, in areas such as clean energy, women-oriented programmes, climate-adapted agriculture and forestry, as well as efforts to fight corruption and the depletion of natural resources, will improve both the direct and the long-term impacts of Norwegian aid for economic development.

Poul Engberg-Pedersen
Poul Engberg-Pedersen
Director General of Norad
November 2009

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OVERVIEW

AID AND ECONOMIC DEVELOPMENT



Economic development is crucial for poverty reduction, even though economic growth creates both inequalities and resource problems for people, the climate and the environment. Without economic development, the number of impoverished people will rise, especially in the regions where poverty is concentrated: sub-Saharan Africa, South Asia and China. International development assistance is a small but flexible and important factor in economic development.





This Results Report on aid and economic development offers ten main messages:

1

Aid makes a small but important contribution

International development assistance has made a small but positive contribution to economic growth in poor countries. A leading development researcher¹ has estimated that without development assistance, economic growth in developing countries would have been one per cent lower. In many poor countries, economic growth merely keeps pace with population growth and consequently aid often means the difference between growth and stagnation. Whether or not the poor benefit from growth varies from one country to another and depends on governance and political power structures.

2

The development impact of aid is long-term

The contribution made by development assistance to economic development often materialises only several decades later and operates through nation-building, market development and improved health and education. The long-term perspective needed presents a major challenge, primarily for the poor people who need change now but also for donor countries, such as Norway, whose populations require the results of aid to be quick and visible. In African countries like Ghana and Tanzania, it took at least a generation after they became independent around 1960 to create social structures that provide a basis for broad economic development.

3

Development is more than survival

As a result of its focus on the weakest members of society and the most vulnerable states, development assistance has contributed to social and human survival. There have been fewer economic disasters and famines than there would have been without aid. These results are essential for mankind, but they cannot be used as evidence of economic development. The situation without aid cannot be proven, and survival cannot be used as a measurement of the contribution of development assistance to economic development.

4

Aid contributes to change and fills gaps

Aid helps to fill four critical gaps in the development of developing countries: physical capital (infrastructure and buildings), human capital (the health, knowledge and competence of the labour force), technology (often related to research or private investment) and institutions (from women's groups to nation-building). Due to aid's role as a force for change, many of the most important results are qualitative rather than quantitative. How do you measure the effect of women's ability to read and organise themselves on their success as economic actors? The effects are considerable, but they are difficult to prove.

5

How aid is used is more important than its size

The use made of aid by the political authorities of developing countries is often more important for the contribution of aid to economic development than the amount of aid provided. In Vietnam, the authorities have used ideas and knowledge transferred through development assistance to improve the conditions for economic development, while all

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¹ Paul Collier: *The Bottom Billion*, Oxford University Press, 2007.



the political and economic forces that shape development in the country are Vietnamese. Uganda's political and administrative leadership used development assistance actively in the 1990s, when the amount of aid also facilitated growth from a very low starting point. In Malawi, political paralysis and the changing volumes and modalities of aid resulted in a long period of economic stagnation, although the situation has improved in recent years, especially in the agricultural sector.

6 Support for economic governance brings results

Assistance for economic governance was dominant in the 1980s, often with an excessively short-term focus on inflation, balance of payments, currency reserves and budget deficits. It helped many fragile economies to survive, but it did not create an enabling environment and incentives for long-term investment in production, exports and jobs. In the 1990s, assistance for governance was expanded in breadth to include human rights and democratisation, and in depth to focus on public financial management. Assistance for public financial management brought the best results, in the form of improved framework conditions for economic development. Budget support, with associated technical assistance for financial management, has boosted economic development in many countries. Norway is now also providing assistance for improved tax regimes, especially in the fields of oil, gas and minerals. Technically, this type of assistance is very demanding, but it offers great potential for having an indirect impact on economic development through improved natural resource management and income distribution.

7 The results of aid for infrastructure are mixed

Physical infrastructure, such as roads, buildings, communications and energy supplies, is a prerequisite for economic development.

Aid for infrastructure development has fluctuated a great deal over the years and support has alternated between public and private investment. The most recent innovation, public-private partnership, is challenging. Thematically, too, this type of aid has fluctuated between advanced solutions aimed at helping poor countries to make gigantic strides, for example in the development of energy and telecommunications, to delivering basic infrastructure, such as roads, built and maintained by women in rural areas. The results are very mixed, even though aid for infrastructure development should be donors' simplest and most effective contribution to economic development, since it concerns public goods in a physical and controllable form. Today, the necessary economic policies and institutional frameworks are in place to enable developing countries to better utilise aid for infrastructure.

8 Support for individual investment can be effective, but it needs to be scaled up for socio-economic development

Aid for private sector development, i.e. support for individual investments and individual companies, illustrates a paradox: there are many examples of successful individual projects, but in total they seldom lead to evidence of socio-economic growth. Such investments often make a profit, create jobs and increase production and exports, but the results of this aid are not reflected in growth rates for the national economy as a whole. Consequently, aid increasingly targets the political and institutional frameworks in order to achieve results that are reflected in the national economy. For the same reason, Norfund's capital transfer programmes focus on large-scale investments and on contributing to funds that have the potential to reach large numbers of small borrowers.

9 The green revolution has not reached Africa, but aid for fisheries is promising

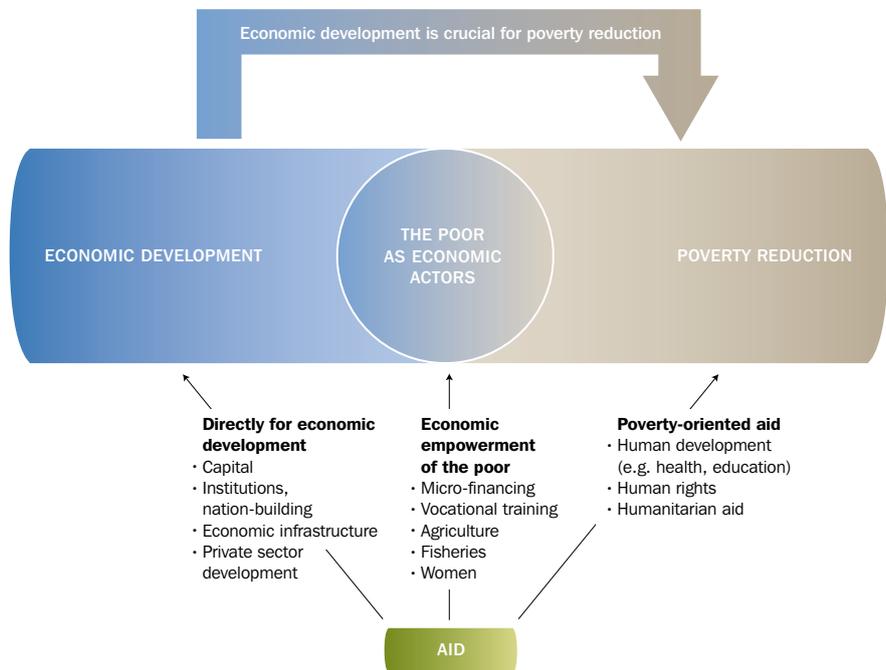
The green revolution in Indian agriculture in the 1970s and 1980s received aid in the form of research and development of packages of improved seed, fertiliser, etc. It resulted in economic development for several hundred million poor Indians. A long-term challenge for international development cooperation is to achieve something similar in sub-Saharan Africa. After African agriculture had been neglected by international and Norwegian aid for twenty years, the Norwegian Government and Yara have in recent years been active in an international alliance for a green revolution in Africa. With limited funds, Norwegian assistance in countries such as Malawi and Zambia has contributed to sustainable productivity improvements in the field of food production. Norwegian assistance for the fisheries sector has been at a stable level and can claim long-term results in capacity development in selected African and Asian countries.

10 Women contribute to the economy, also without aid

Neither development assistance nor national policies have achieved results that reflect the real contribution of women as economic actors in food production, marketing, the informal sector and services. Norway has probably achieved more results than other donor countries from women-oriented programmes for small-scale entrepreneurs and small farmers, not least through micro-finance and vocational training in Asia and Africa. While a great deal has been achieved in the social sector, especially in terms of gender equality in basic education, most of the assistance relating to economic governance, infrastructure development, support for the private sector, agriculture and fisheries is gender-neutral. And gender-neutral usually means conserving power structures and neglecting women.



FIGURE 1 Aid affects economic development



AID, POVERTY REDUCTION AND ECONOMIC DEVELOPMENT

The main purpose of development assistance is to combat poverty. We seek to do this in three contexts:

1. Directly, with target groups, by providing assistance for human development (especially health and education), human rights and humanitarian aid
2. Directly, with target groups of poor people as economic actors, by providing assistance for agriculture, fisheries, micro-financing, vocational training, small-scale entrepreneurs, women-targeted programmes, etc.
3. Indirectly, through assistance for economic development in the form of contributions to growth at the national level, nation-building and framework conditions, economic infrastructure and private sector development.

The 2009 Results Report addresses items 2) and 3): combating poverty through economic development, see Figure 1. Direct poverty-targeted assistance is not enough to lift one-and-a-half billion people out of extreme poverty. Poor people, communities and countries

must do it themselves, and this requires economic growth and development.

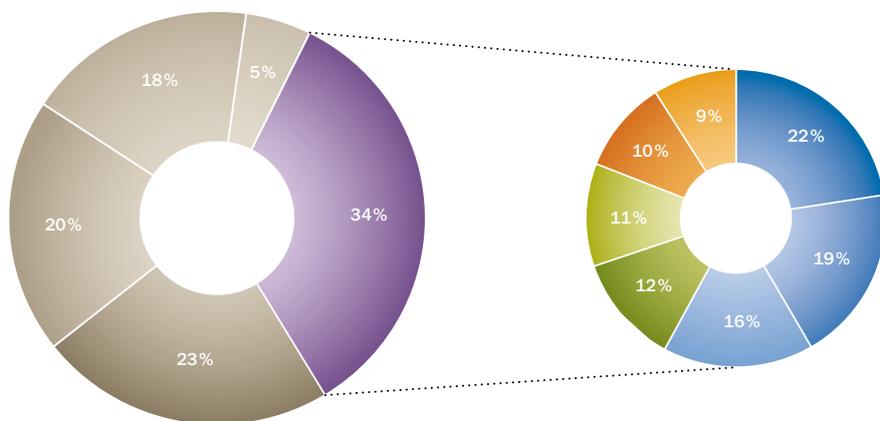
IT BEGAN WITH ECONOMIC GROWTH

In the period following World War II, everyone focused on reconstruction and economic growth. The forerunner of modern official development assistance emerged at that time – in the form of the Marshall Plan, the massive aid provided by the US to Western Europe from 1948 to 1952. The US contributed a sum that, in relation to the nation's revenues, was 20–30 times greater than official US development assistance is today. Even though historians disagree on the importance of the Marshall Plan for Europe's formidable economic growth in the decades after the war, it had a significant impact on how people thought about providing assistance for countries outside Europe.

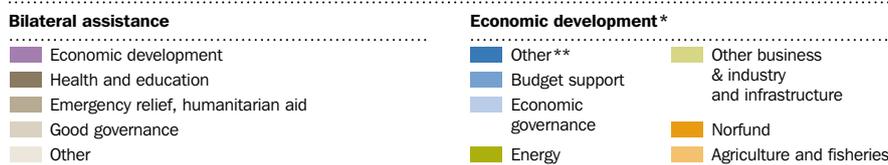
The 1950s saw the emergence of economic theories about how growth and modernisation could be stimulated. The central theses concerned how aid can help to fill various gaps that prevent economies from growing. It was primarily a matter of a lack of capital for investment and of knowledge for enhanced productivity.



FIGURE 2 A large portion of Norwegian aid goes to economic development



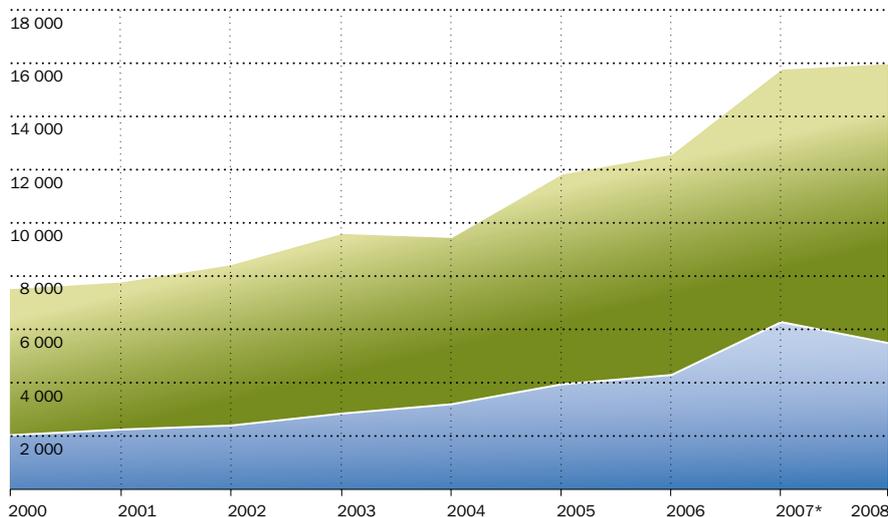
Estimated bilateral assistance for economic development, by target area, 2008



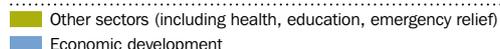
* "Economic development" is an estimate based on selected economic sectors. These may have some non-economic objectives as well.
 ** "Other" includes debt relief (DAC 600) and multisector aid (DAC 430).

Source: Norad

FIGURE 3 The proportion of aid for economic development has risen from 25% in 2000 to 34% of Norwegian aid in 2008



Bilateral and multi-bilateral assistance, NOK million



* Includes major investments through Norfund

Source: Norad

Economic growth became the yardstick for measuring development, and countries were classified according to average per capita GDP. Some countries were classified as low-income

countries and middle-income countries, the idea being that aid would help a country to move up the scale until it took the final step away from the need for development aid.

There was an underlying assumption that when the economy grew it would gradually also benefit the poor. It has since been recognised that economic growth alone does not generate good economic development.

NORWAY'S ASSISTANCE FOR ECONOMIC DEVELOPMENT

According to the OECD/DAC,² development assistance is a grant or a favourable loan³ to a developing country, donated by the public sector, the main purpose of which is to promote economic growth and welfare in the recipient country. In addition to financial contributions, this definition also includes technical assistance. Norway no longer provides development loans, but in 2008 Norway contributed NOK 617 million through Norfund.

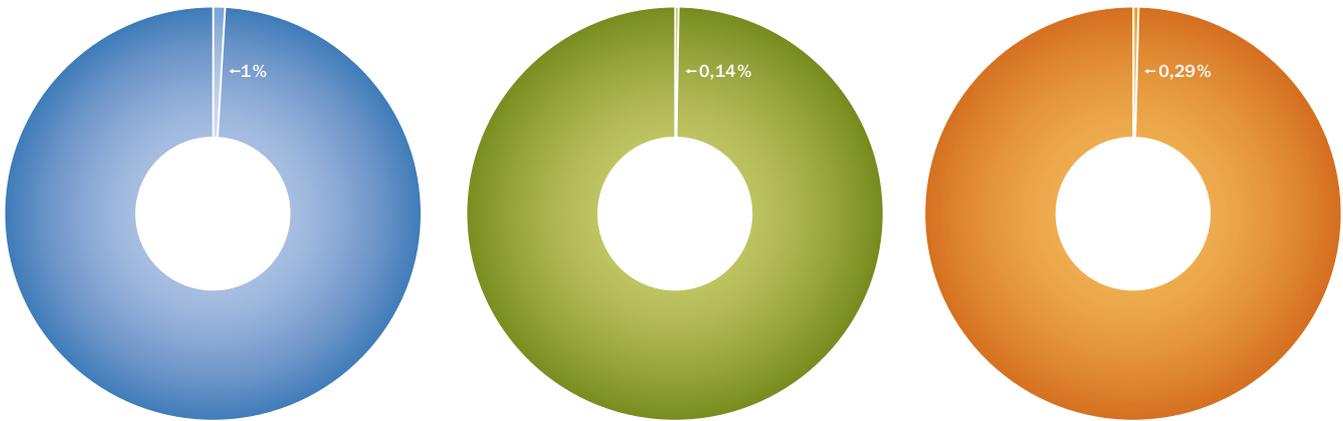
In 2008, Norwegian development assistance totalled NOK 22.6 billion. NOK 16 billion (71 per cent) went from Norway to recipients in partner countries (bilateral assistance) or through multilateral organisations to earmarked projects in developing countries (multi-bilateral assistance). Assistance is provided through various channels, usually to national authorities. Non-governmental organisations are also important recipients, and much of this type of assistance is channelled through Norwegian NGOs. Multilateral assistance is Norway's contribution towards the core financing of multilateral organisations in the UN system and the new development funds (such as the Global Alliance for Vaccines and Immunization (GAVI)) and capital contributions to the development banks (the World Bank and the regional development banks) and the International Monetary Fund (IMF). In total, 110 countries received development assistance from Norway in 2008.

Norway produces statistics on development assistance in accordance with the common guidelines drawn up by the OECD. This entails breaking down assistance by priority area, but since a specific allocation or meas-

² DAC is the Development Assistance Committee of the Organisation for Economic Cooperation and Development (OECD). The Committee sets standards for good development assistance and monitors member states' assistance volumes.

³ If a loan is to be defined as development assistance, the grant element must be at least 25 per cent, in the form of reduced interest, a grace period and a long repayment period.

FIGURE 4 Norwegian aid is a drop in the ocean



Percentage of resources spent on three sectors in three countries

Infrastructure in Uganda (2008)

Uganda's expenditure on infrastructure: USD 1,839 million
 Norwegian aid for infrastructure in Uganda: USD 18 million

Private sector development in Vietnam (2007)

Private sector in Vietnam: USD 6,990 million
 Norwegian aid for the private sector in Vietnam: USD 9 million

Agriculture in Malawi (2005)

Malawi's agricultural production: USD 1,007 million
 Norwegian aid for agriculture in Malawi: USD 3 million

Sources: Norad, Statistisk sentralbyrå

ure can have many purposes, it is not always easy to produce this type of breakdown. Figure 2 shows the distribution of Norwegian bilateral and multi-bilateral⁴ assistance according to a rough breakdown where the category economic development is specified. The breakdown must be regarded as an estimate, since areas may overlap and a choice must therefore be made about what to put in each category.

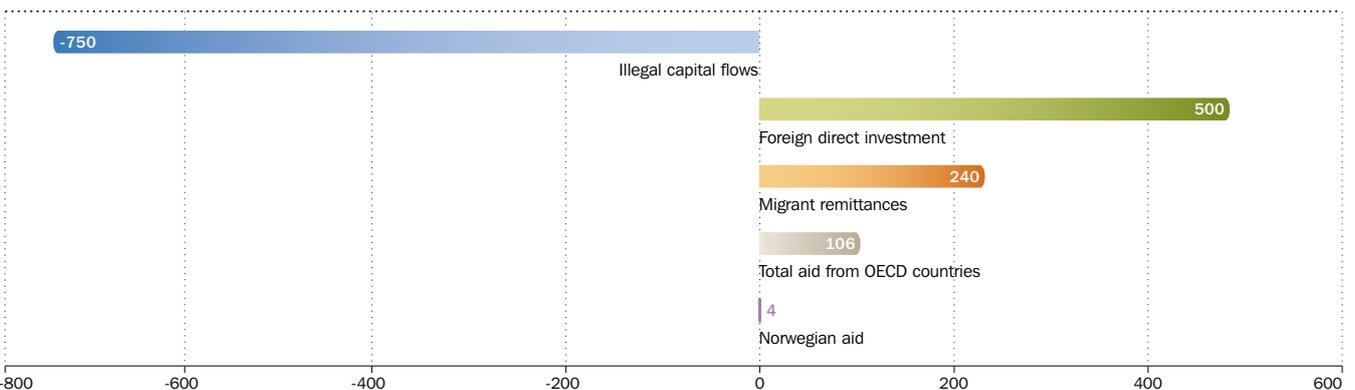
Figure 3 shows that assistance for economic development has increased gradually since the turn of the millennium. This reflects stronger emphasis on factors that are of fundamental importance for a country's economic development

Norway's development assistance is of limited size relative to economic development. Figure 4 exemplifies how small a proportion of the factors that comprise economic development is accounted for by Norwegian aid.

In the white paper *Climate, Conflict and Capital. Norwegian development policy adapting to change* (Report No. 13 (2008–2009) to the Storting), the Government emphasizes that development policy must focus on fighting poverty, making efforts to achieve the Millennium Development Goals and a world order led by the UN. It explains why the Government regards climate change, violent conflict and international capital flows as the three main challenges in the fight against poverty. At the same time, it underlines that Norway's role as an aid actor must be concentrated on thematic areas where

⁴ In this report, bilateral assistance includes multi-bilateral assistance unless otherwise specified.

FIGURE 5 Aid is far from the largest capital flow to and from developing countries



Capital flows in 2007, USD billion

Sources: Global Financial Integrity, UNCTAD, World Bank, OECD, Norwegian Ministry of Foreign Affairs

Norway has recognised competence, so as to provide greater added value. The white paper argues that a dynamic private sector is a prerequisite for economic growth and development. Norwegian and international assistance is small in relation to other capital flows into and out of developing countries, see Figure 5. The white paper emphasises that development assistance must seek to influence these far greater capital flows and thereby promote economic development. This has led to more efforts to managing developing countries' revenues from their natural resources, especially oil and gas, and improving taxation, to the benefit of national economic development.

FIGHTING CORRUPTION AND CAPITAL FLIGHT

Corruption is a persistent and serious problem in all the countries that are the main recipients of Norwegian development assistance, and efforts in this field are increasing. Anti-corruption activities are closely linked to the effort to promote good economic governance, including through measures that do not directly target corruption. Stronger economic governance and financial management are important in reducing corruption.

The Corruption Hunters Network, which is managed by Norway, consists of highly qualified investigators and heads of anti-corruption units from several countries. The members of the network share their experiences from major cases and campaigns, discuss strategies, and have the opportunity to engage in confidential discussions with others who are in the same position. Corruption hunters are in a vulnerable position in many countries. In the first couple of years after the UN Convention against Corruption was adopted in 2005, there was a positive trend in the fight against corruption in many countries. Members of the network were chief investigators in major cases, such as the Abacha case in Nigeria, the Suharto case in Indonesia and the Chiluba case in Zambia. In the last couple of years, the process has been tougher in some poor countries, and some corruption hunters have lost their jobs or resigned in frustration.

Norway is also active in the fight against tax havens. Tax havens have a particularly destructive impact on development in poor countries as a result of money laundering



Samples from the ocean and the offshore seabed are analysed at PetroVietnam's Research and Development Institute for Petroleum Safety and Environment.

MORE TRANSPARENCY IN VIETNAM'S PETROLEUM PRODUCTION

Vietnam is the third largest oil exporter in South-East Asia and petroleum production accounts for approximately 30 per cent of government revenues. The state oil company, PetroVietnam, has a dominant position and responsibility in almost all parts of the production chain.

Norway has contributed to capacity-building in the Vietnamese petroleum administration since 1977, with special emphasis on education and training relating to environment, health and safety (EHS) and sound management of petroleum resources. Institutional cooperation on specific project activities has been in progress since 1996. The establishment of an electronic system for mapping resources at a cost of NOK 9 million has been completed and is actively used by PetroVietnam. The system is used in strategic planning for the energy sector. Oil companies operating in Vietnam must report reservoir data annually using this system. This has provided a better overview of resources in the various fields, based on estimates of remaining reservoirs, and possibilities for planning future energy supply and demand. EHS systems and guidelines are currently being prepared and introduced.

and concealment of illegally acquired wealth. The Capital Flight Committee presented its report in June 2009. Norad acted as secretariat for the Committee. The report contains analyses that have aroused international attention and helped to put the fight against the negative aspects of tax havens on the international agenda. It shows that without the secrecy of tax havens, it would have been considerably more difficult for corrupt leaders, businessmen and multinational companies to steal nations' wealth.

NORFUND: INVESTMENTS THAT HAVE RESULTED IN HIGHER EMPLOYMENT AND TAX REVENUES

Norfund is the institution in Norwegian development cooperation that is most directly involved in economic growth of developing countries. The Fund invests, often with partners, in individual companies where Norfund can exercise active ownership. Di-

rect investments in renewable energy are largely channelled through SN Power, which is a joint venture between Statkraft and Norfund. Norfund also works indirectly through investment funds and financing institutions.

While Norfund's return from 2002 to 2005 was weak but positive, it has increased in recent years and reached 21 per cent in 2008. This was equivalent to a profit of NOK 233 million before exchange rate gains. Norfund has been less affected by the financial crisis than many other investment funds. One of the reasons is that the financial crisis has not yet reached many developing countries



Mobile health kiosks are used to provide information about HIV and AIDS on construction sites. The picture shows the Noremco health team in front of one of the kiosks, (from left) Omari Chambo, Anthony Marwa, Charles Mlowola og Anders Bentzrød. (Photo: Kjartan Høvik)

AN IMPROVED WORKING ENVIRONMENT HAS INCREASED PROFITABILITY FOR NOREMCO IN TANZANIA

The Veidekke subsidiary Noremco, which has a head office in Dar es Salaam and almost 1,000 employees, is involved in the contracting business in East Africa. In August 2001, Noremco was granted NOK 8.5 million over a period of six years by Norad for a health project focusing on HIV/AIDS and malaria. The target group comprised both company employees and their families, a total of approximately 3,800 people.

The project has resulted in many specific improvements in the health situation of the target group. For example, knowledge about sexually transmitted diseases, HIV/AIDS, malaria and other common diseases has increased, 63 per cent have been tested for HIV/AIDS and 95 per cent now use mosquito nets. Stigmatisation relating to HIV has been reduced and accident statistics have dropped to the same level as at Veidekke in Norway.

This has led to stability in the labour force, improved employee skills and better cooperation. The project has resulted in increased motivation, competence and job satisfaction. These measures have been important for Noremco's position on the market, which in turn affects profitability. Noremco was voted "Best Foreign Contractor" in Tanzania in 2007.

because they are less integrated into the international financial markets. In addition, it indicates that investments in developing countries can generate a good return.

Norfund's own results give an indication of the extent to which Norwegian capital investment in developing countries is profitable. It shows that the companies in which Norfund has invested generate profit. 52 per cent of Norfund's total fund investments are in sub-Saharan Africa. In 2008, 93 per cent of new



Norway has been supporting aquaculture research and development in Vietnam since 1998. This picture is from the Research Institute for Aquaculture No 1 (RIA1) marine installation in Halong Bay. Here, fish of the cobia species are splashing in the pens.

IMPROVED MANAGEMENT AND INCREASED FISH PRODUCTION HAVE BENEFITED SMALL-SCALE PRODUCERS IN VIETNAM

Vietnam has long fish-farming traditions, but it also has the potential to increase production in a more environmentally sound way. Vietnam wished to cooperate with Norway on exploiting this potential more effectively by focusing on education and increased research expertise in the field of aquaculture. Norway has been supporting aquaculture research and development since 1998. Over a ten-year period, the Research Institute for Aquaculture No 1 (RIA1) in Vietnam has received a total of NOK 30 million. As a result of research, poor families have increased their production by up to 40 per cent after taking part in an aquaculture trial with a new type of tilapia fish. Selective breeding has increased the growth rate of the fish by 46 per cent and given it greater tolerance to cold than ordinary Nile tilapia. Hardly any of the fish farmers using this method experienced fish disease, contrary to most of the other fish-farmers.

While in 2001, total tilapia production in Vietnam amounted to 15,000 tonnes, it had risen to 40,000 tonnes in 2005. In 2008, production was estimated to be 70,000 tonnes. Through development assistance, Norway has improved Vietnamese research capacity in the fields of genetics, fish health and aquaculture. At the end of 2008, 154 students had started or completed master's degree studies and 34 per cent of them were women. Of the 106 graduates, 36 are working at RIA 1. Three have commenced or completed doctorates with support from the project. Norway has now completed the second phase of support for the research institute.

fund investments were in Africa. At the end of 2008 almost 250,000 people were employed in these companies. Approximately 100,000 of them were working in around 200 companies in which Norfund had invested through other funds. 49 per cent were women. This high proportion is due to investments in micro-credit companies that target women. The proportion of women in companies where Norfund has invested directly is significantly lower, at 18 per cent in 2008. Norfund states that the companies paid a total of NOK 3.2 billion in tax in 2008. Grameen Phone in Bangladesh alone paid more than NOK 2.2 billion in company tax, licenses and charges. These figures are not weighted according to the size of Norfund's investment in each enterprise, and the results include total figures from all enterprises. The overall results can therefore not be ascribed entirely to Norfund's involvement.

THE SIGNIFICANCE OF AID IN THE SHORT RUN AND THE LONG RUN

The most important impact of aid on economic development materializes through long-term processes of change and improved framework conditions and not through direct transfers of capital: nation-building, macro-economic stability, improved levels of education, improved health and higher life expectancy make important contributions. In African countries such as Ghana and Tanzania, it took at least a generation after independence to create social structures, institutions and cultures that can provide a basis for broad-based economic development. Is that a long time? Yes it is, in relation to our impatience and our very ambitious development policy targets. But not in comparison with industrialisation and social modernisation in Europe, North America and Latin America, which required half-centuries and experienced many conflicts and setbacks. And not in comparison with the last half century's strong economic growth in Japan, South-East Asia and China, which have all been through decades of state and nation-building. Even India's strong economic growth in recent decades is taking place while hundreds of millions of Indians still live in extreme poverty. In every country and in every period, economic growth has alternated with crises, conflicts and setbacks.

At the social level and in the shorter term, investments in physical infrastructure and direct transfers of capital are the most important factors for economic growth. Direct transfers from Norway primarily comprise budget support, sector programmes, loans and investments, especially through Norfund. In the poorest and most crisis-hit countries, it is not only direct financial transfers that are important for economic development. Humanitarian assistance also contributes capital. For example, USD



LOW-THRESHOLD SERVICE FOR LOW CASTE WOMEN IN INDIA

Although India's caste system has been officially abolished in the Constitution, millions of people are still suffering discrimination every day due to their caste. A vocational training programme, the Women's Economic Programme, was established in 1982 as part of bilateral cooperation between Norway and India. The programme combined training, production and paid work. The target group consisted of poor, low-caste women and girls from rural areas and urban slums.

The programme was fully financed by Norad from 1982 to 1986. Since 1986, India's contribution to the programme has gradually increased and in 1997 it became part of India's five-year plan and a national programme. India then financed 80 per cent of the programme, which operated in 30 states. Norway withdrew in 2002 after having contributed a total of NOK 152.9 million to the programme.

In the course of the twenty years in which Norway supported the programme, 166,000 girls and women received vocational training in the fields of sewing, spinning, repairing electrical goods, beauty treatment, health care, computing and processing agricultural products. Reviews of the Women's Economic Programme have estimated that 60 per cent of the women were employed or started their own business after training. In the province of Andhra Pradesh, women who had taken courses in computing and beauty treatment had experienced positive career development. Some beauticians had started as assistants for others and opened their own parlours in the course of a few years. Several of the women who were trained in sewing and embroidery have started their own training centres. Another development is that women have re-invested their earnings in new, improved equipment to increase their income. (Photo: Rekha Bezboruah)

What is a result?

This is primarily a report on the results of Norwegian development assistance, limited to the overarching goal of promoting economic development. In development assistance it is common to distinguish between three different result levels: 1) results in the form of products and services (outputs), 2) effects for the target groups (outcomes) and 3) development results – social change at the national level (impact). It is important to distinguish between what you do and what you achieve, i.e. results. A common problem in development assistance is that we do not make this distinction, and report on the use of resources and activities instead of the results.*

Social change can, to a limited degree, be directly linked to inputs financed by Norway. When we speak of changes in indicators for economic growth, poverty reduction or improved public health, it is impossible to isolate the effect of a few Norwegian drops that fall in a large ocean of other, stronger influences. It is nevertheless possible to estimate the effects and give reasonable assessments of how they have occurred. Consequently, an assessment of the social effects of development assistance often becomes a question of relevance. Is it possible to maintain that an input has been relevant, that it is based on experience of what works, and to prove that it has brought results?

This report provides examples and assessments of results, both as project results, effects for target groups and social changes. The report also assesses the relevance of Norwegian development assistance to the goal of economic development. Chapters 3 to 7 give many examples of concrete results from projects supported by Norway. There are also some examples of inputs that have not produced the results that were planned.

* For further information on measuring results, etc. see Results Management in Norwegian Development Cooperation – A Practical Guide, Norad 2008, or *Mål- og resultatstyring i staten – En veileder i resultatstyring*, Senter for statlig økonomistyring (SSØ), 2006

and investment, although macro-level results remain uncertain. This type of public-private partnership is extremely challenging politically, technically and administratively. There is a risk that the results will not be commensurate with the costs.

The 2009 Results Report refutes the critics' claims that the reason why there is still widespread poverty and underdevelopment must be that aid is ineffective and wasteful. Aid has reduced the number and scope of economic breakdowns. Aid has contributed to socio-economic development, it has reinforced the economic activities of individual actors and it has created a foundation and frameworks for broad economic development. But it has only contributed. Development is controlled by the authorities, institutions, companies, entrepreneurs and populations of the developing countries themselves. And that is as it should be.

700 million was spent on foreign aid for Zimbabwe in 2008, despite sanctions against Robert Mugabe's government. In the very poorest countries that do not attract private investment, this assistance is really the world community's contribution to economic survival, even though we do not see strong results in the form of economic development.

Development assistance results in economic development when it reaches the most important economic actors in developing countries, regardless of whether they are female smallholders, public power companies or private export companies. Nevertheless, the many positive examples must be tempered by improved analyses of costs, effectiveness and results. Development assistance often entails high costs when it tries to support individual actors. Support for individual companies, individual entrepreneurs, small women's groups, etc. is often too expensive and unsustainable.

Development assistance has often failed when it has tried to control research and

technological development and to direct capital into especially growth-promoting sectors. Aid can promote good policies (it has happened), good framework conditions (it has happened) and good levels of competence (it has partially happened). But in this case Norwegian aid is limited by its small size compared with other aid, and especially compared with strong economic forces and capital flows. Consequently, Norwegian aid must be concentrated on areas where we have special expertise and where, in alliances with others, we can influence important economic and political forces and processes. Some people call this 'smart aid', but the term is not so smart, since aid has always tried to achieve results beyond its size. We have not delivered 'unsmart' aid in previous decades.

There are signs that investing in value chains in selected sectors can mobilise private investment and economic development. This can perhaps make it possible to create a link between technological development, capacity-building, infrastructure, education



Bugoye, Uganda: Steps are built in an overflow weir using stones encased in chicken wire. This outlet is important for diverting water when the flow of water in the channel is particularly heavy.

THE CONTRIBUTION OF AID TO ECONOMIC DEVELOPMENT

The direct contribution of aid to economic growth has been positive, but the effect on economic development at large has been slight. Aid has influenced particular factors that stimulate growth, such as infrastructure, knowledge, technology and institutional development. Aid has contributed indirectly to long-term economic development. It takes up to a generation for improvements in health, education and public administration to have an impact in the form of improved economic development.



It is difficult to draw firm conclusions about the overall or average effect of aid on economic growth. The importance of aid is often insignificant compared to other factors that influence development, and much of the aid has had goals other than economic growth. Growth processes are complex and unpredictable, and the bulk of aid goes to the countries that have the greatest problems.

Does aid work? This question has been asked numerous times in the history of development assistance. There have been many answers, along the entire scale from 'aid makes matters worse' to 'aid produces the

desired results'. Firstly, the answer will depend on the criteria used for determining goal achievement, which may be more or less ambitious. There is a difference between measuring the effects of aid on road quality and transport in a region, and the effect on the economic growth in the area. The aim that growth should benefit poor people sets the bar even higher. Secondly, aid is provided with varying goals in mind, which may conflict with each other. Moreover, aid comes in different forms, such as money in the way of grants or loans, technical advice, goods and services, and it comes with different conditions in the form of political demands

or links to donor countries' own interests. Thirdly, aid goes to countries and regions that are basically dramatically different, and in most contexts aid is small in comparison with other factors that affect development.

Development research and the aid debate are characterised by attempts to identify common patterns in development assistance. These efforts have greatly influenced aid policy decisions, in Norway as elsewhere. As regards the relationship between aid and economic development, three debates have been important:

1. How does aid affect a country's economic growth? The boxes on this page explain the difference between the terms 'economic growth' and 'economic development'. Since data on economic growth now is available for many developing countries covering several decades, it is possible to carry out statistical analyses that try to separate the effect of aid from other factors that influence growth. It is impossible, however, to determine how a country would have managed without aid.

2. Which time perspective should be used? How can we analyse and interpret the fact that many positive results of aid have been reported at project level, while it has been difficult to trace corresponding effects at the national level? The time dimension then becomes important, and also the political role of aid during changing international conditions.

3. Does aid create dependency that has a negative impact on a country's economic development? Some critics maintain that in certain cases aid is part of the problem. If aid becomes too dominant, the legitimacy of the state can be undermined. It becomes less of a process of self-driven economic development supported by the population and based on the country's own resources and tax revenues.

This chapter reports on the first two debates, and builds on the part of development research that analyses statistical data from as many countries as possible. It is based on a contribution from development economists associated with the University of Copenhagen, whom for many years have played a central role in the academic debate.⁵

WHY ARE SOME COUNTRIES POOR?

The differences in living standards in the world are enormous. The average citizen in a rich country consumes as much in a few days as a citizen in a poor country consumes in a year. If regional differences in what you can buy for one dollar are taken into account, per capita income or consumption in the richest countries is fifty times higher than in the poorest countries. There are also sig-

⁵ This contribution was written by Channing Arndt, Sam Jones and Finn Tarp, and can be read in its entirety at Norad.no

Economic growth // The percentage change in a country's GDP in the course of a year or over longer periods of time

Economic growth is usually measured in terms of the percentage increase in a country's gross domestic product (GDP). Many developing countries have high population growth, and economic growth must be viewed in relation to this. Per capita GDP is a central economic indicator to describe countries' level of development. In the poorest countries, per capita GDP is a few thousand NOK. This tells us that strong, long-term economic growth is an essential prerequisite for poverty reduction, but that at the same time it is not enough. A long-term policy must be pursued that helps poor people to increase their potential income and develops the country's infrastructure, institutions, etc. In the short term, a country can achieve high economic growth by utilising more of its production capacity, for example due to increased demand. In the long term, capacity must be boosted by increasing investments in physical capital, competence and institution-building. Such long-term growth is essential for the achievement of poverty reduction and is the most difficult to achieve. This type of growth requires economic development.

Economic development // Improvements in a population's standard of living that are linked to economic growth over a long period of time

Economic development is a broader, less clear concept than economic growth. The term covers changes in living conditions, including poverty and income distribution, as well as industrial structure, institutions, technology and patterns of behaviour. There is no generally accepted way of measuring economic development, and various combinations of indicators are used. One measure that is frequently referred to is the UNDP Human Development Index. The connection between economic growth and economic development is unclear. But a country cannot achieve continuous strong growth over a long period of time without economic development. Continuous, good economic development is characterised by the existence of self-reinforcing mechanisms in the process. For example, improvements in people's living conditions as a result of improved competence, education and security will improve the possibilities for further economic development through increased productivity and employment. Economic development therefore has to do with developing the economic system in a country, i.e. policies, administration and markets, as well as the interaction between them.

nificant differences in other living standard indicators, such as life expectancy, education level and infant mortality.

Average per capita income in a country primarily depends on production. Both employment and productivity in developing countries are limited by access to factors that take a long time to develop: physical capital (factories, tools, computers, roads, etc.), human capital (knowledge, competence) and technology. Institutions also play a key role. They provide the framework that enables these factors to work together in a productive way. Poor countries lack physical and human capital, technology and functioning institutions. These four deficiencies lead to low productivity for the individual worker and of-

ten to a low employment rate as well, with the negative consequences this has for people's living conditions. Figure 1.1 illustrates the connection between economic growth and economic development, and how development assistance can stimulate growth from the bottom up through the four deficiencies, or indirectly through other factors.

The four deficiencies have certain characteristics in common that may explain the situation in developing countries. Firstly, they are factors that are built up over a long period of time. For example, in most developed countries the buildings reflect more than a century of construction activity. It takes at least two decades to turn a child into a specialised engineer. Although it is possible to

make technological leaps, technological development is a laborious process that entails repeated trial and error. Institutions also develop slowly, for instance such as British law, which is based on precedence from cases established over several centuries.

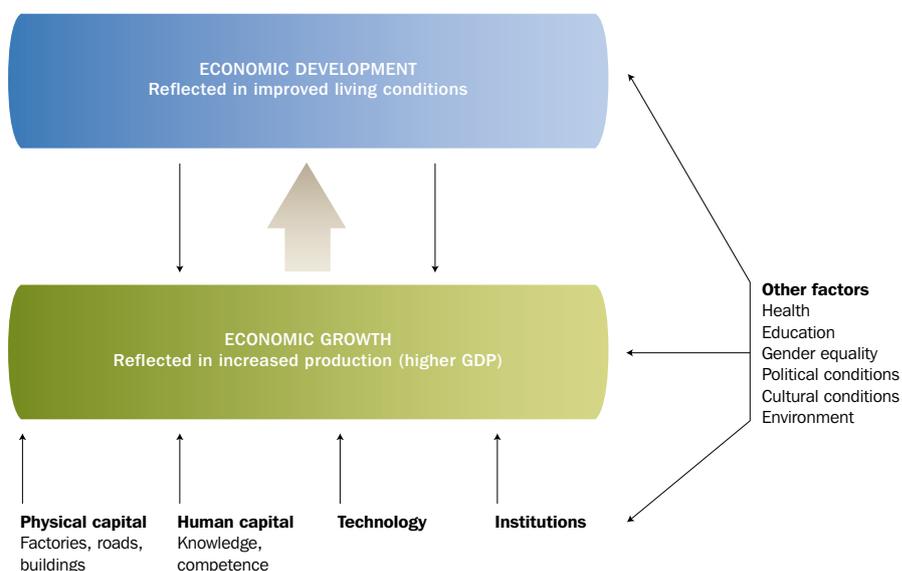
Secondly, a forward-looking way of thinking is required if these factors are to be strengthened over time. Something often has to be sacrificed today in order to reap the benefits in the future, and this is difficult when today's resources are very limited and the future is uncertain. Thirdly, it is necessary to change cultural and social conditions that limit people's participation in economic life. This particularly applies to the situation of women in many countries, but it also applies to groups that suffer discrimination due to their ethnicity or religion. Fourthly, economic development is dependent on interaction between the public and the private sector. Even in strongly market-oriented economies, such as the US, public authorities provide a basic economic and social infrastructure, such as roads, education, development-oriented research and market regulation. This shows the importance of institutions for present and future production capacity. The fifth common characteristic is that progress in all these areas can easily be broken down. In a short time, war can destroy both physical and human capital and wipe out established rights. New institutions that are not maintained can soon fall apart.

From an economic perspective, poor countries must produce a lot more if living conditions are to improve. To achieve this, these countries must initiate long-term processes that together build physical and human capital, introduce technology and create institutions. The role of development assistance is to support these long-term processes.

THE RELATIVE SIZE OF AID

The effect of aid over time depends on how extensive it has been. There have been significant fluctuations in total global development assistance. In relation to population size and the economy of recipient countries, development assistance reached a peak at the beginning of the 1990s and then dropped. At the turn of the millennium, this trend was halted to a certain extent, but the new increase does not match the amounts esti-

FIGURE 1.1 Four factors in economic growth and development



mated necessary to achieve the UN Millennium Development Goals, or the pledges given by the G8 countries in 2005.

The reduction in the significance of aid coincides with a strong rise in transfers of private capital to developing countries. In many countries, aid is today overshadowed by direct foreign investment and remittances from labour migrants. Figure 0.5 in the Summary (page 8) shows that enormous sums also flow illegally out of developing countries. The global financial crisis that began in mid-2008 has probably changed the flow of investments and remittances, but it is still uncertain how large and long-lasting the effects will be for developing countries. The financial crisis has also caused many donor countries to cut back on development assistance.

Countries in Sub-Saharan Africa in particular are highly dependent on development assistance. In the period 1996–2005 aid to Vietnam amounted to four per cent of GDP, while it accounted for 13 per cent in Tanzania and 29 per cent in Mozambique.

WHAT CAN BE EXPECTED? EFFECTS LARGE AND SMALL

In recent decades, a large number of studies have been carried out of the effect of aid at project level. Documentation of the ef-

fects of specific projects draws a fairly rosy picture. The strictest evaluations in this area are carried out by the World Bank, and reports from the World Bank's Independent Evaluation Group are encouraging. The average economic return on aid is well over 20 per cent, and a satisfactory economic return on projects has been reported in a growing number of studies. Overall, a large quantity of project-based documentation has been gathered, and few people deny that aid projects have, for example, led to improved health, improved access to education and broader distribution of appropriate technology in the agricultural sector.

Evaluations of development efforts at project level have been supplemented by more recent studies based on random samples, and in some cases experimental approaches.⁶ These studies attempt to avoid imbalances in the sample that occur if only completed and successful projects are included. The results of these studies are also largely positive and show that projects financed by development assistance have been of great benefit for specific target groups. For example, studies of treatment for intestinal worms in schoolchildren in Kenya show that highly cost-effective medicines can reduce absence

⁶ An overview over these types of studies may be found in Langbein L. (2006), *Public Program Evaluation. A Statistical Guide*, M. E. Sharpe.

Aid and growth – the debate among development economists

The **first generation** of studies was inspired by relatively simple models of the growth process, such as the idea that the economy grows proportionately to investments in physical capital. In this case, it is easy to calculate the size of investment needed to achieve the target growth rate. Aid could help to meet this need. Studies within this tradition estimated the extent to which aid increased savings and investments in the recipient countries. They concluded that aid has a tendency to increase saving, but not by as much as the amount of aid provided. This indicates quite simply – and logically enough – that some of the aid is spent rather than being invested.

The **second generation** of studies went further in investigating the effects of aid on growth by stimulating investment. Hansen and Tarp conclude that the findings in these studies consistently indicate a positive correlation between aid and investment. However, it is surprising that many studies do not show a clear connection between saving and growth over time in these countries. This has raised doubts about the growth model and the methods used in these studies. We cannot expect both a linear connection between production and investment and that all aid is invested. Growth is to a lesser extent conditional upon physical capital investments – including aid – than has often been assumed. If the productive effect of aid is more dependent on incentives and relative prices, as well as the general political climate, it is important to consider the possible disruptive effects of aid on incentives and economic policy.

Several of these second generation studies addressed the problem that countries that developed poorly probably receive more aid precisely because they achieve low growth. Donor countries have focused particularly on directing aid towards the poorest countries. Analyses that do not take this into account will not show the ‘real’ effects of aid.

From the beginning of the 1990s, a **third generation** of more sophisticated statistical studies began to influence the academic and popular debate on aid. This was a result of having access to far better data, which enabled analysts to look at changes both across and within countries over time. Data for different periods of time were now available. Burnside and Dollar maintained that “... aid has a positive impact on growth in developing countries with good fiscal, monetary and trade policies ... [but] ... in the presence of poor policies, aid has no positive effect on growth”

However, this conclusion was the object of much criticism and the statistical analysis proved to be highly uncertain. For example, aid has a positive impact on growth, but the effect declines. Moreover, the variations between countries with respect to the effect of aid on growth appear to be linked to countries’ geographical location. Aid appears to have had far less impact in tropical regions in the past thirty years, although it is emphasised that it is hard to believe that aid should have some inherent quality that makes it work less well in the tropics.

After reviewing many of these studies, Roodman maintains that the results are enormously sensitive to the methodological

choices that have been made. He concludes that some aid probably increases investments and growth, but he maintains that aid “is probably not a fundamentally decisive factor for development”. He also points out that, due to the many different types of aid that exist, combining aid into a lump sum will probably conceal valuable information about the real effect of aid.

There are a number of **more recent studies** that have adopted a clearly pessimistic point of view. Rajan and Subramanian conclude that aid has not had a systematic effect on growth. They maintain that this conclusion is true, regardless of method, time period or type of aid. Some researchers try to explain why transfers of resources in the form of aid, at least the part of it that is invested, do not lead to a general rise in growth rates. A widespread explanation of the negative effect of aid that offsets the gains of the actual transfer of resources is that aid undermines or weakens governance by increasing corruption, and leads to more people embezzling parts of public funds. Aid is compared with a “resource curse” – i.e. a strong rise in revenues from natural resources (such as oil), which it should in principle be possible to use to increase growth, but in practice has often led to weaker governance and weaker growth over time. Rajan and Subramanian also maintain that growth in the productive sectors in developing countries is undermined by the harmful effect of aid on governance.

See Channing Arndt, Sam Jones and Finn Tarp for further information and source references, at www.Norad.no

from school by 25 per cent and increase school attendance for every child that is treated.

It is a challenge to development researchers that conclusions about the overall effect of aid cannot be drawn from studies of individual projects. The macro-economic impacts of aid are usually analysed by looking at total development assistance and economic growth. This is done across countries, and we should

be able to expect the countries that receive more assistance to grow more rapidly. On the contrary, however, the available documentation shows that many of the countries that have received the most aid have achieved relatively poor economic growth.

One possible explanation is that aid has been fairly effective but growth has been hampered by other factors. If the developing countries had been similar in all aspects ex-

cept for aid and growth, it would have been easy to link differences in growth to differences in aid. The problem is that, in addition to aid, the differences between countries are very great.

It is generally agreed that economic growth is essential for the achievement of more or less all the development goals, even though growth alone is not enough. It is therefore reasonable to ask if aid has contributed to

economic growth in developing countries. Although the question is simple, it is not easy to answer. The greatest problem with measuring the effects at national level is that even total aid to a country is usually small in relation to other economic factors. Norwegian development assistance is usually only a drop in the ocean. In addition to this, researchers have extensive problems of methodology, and struggle with significant weaknesses in the available data.

Ideally, to measure the effect of aid we should measure growth in the same country with and without aid and at the same time be cognisant of all the other factors that influence growth. Since it is impossible to observe the same country with and without aid, we have to compare what has actually happened with reasonable assumptions about what the situation would have been without aid. Whatever the case, the answer is dubious, both in theory and in practice, and this is an important reason why the effect of aid is a highly controversial topic.

By using advanced statistical methods, researchers have tried to find patterns in the variations between a large number of countries in terms of growth, aid and other factors. Box 1.2 describes these types of studies. Even if such studies cannot usually say anything about the effect of aid in a particular country, they can say something about the average effect of aid.





SUMMARY

Despite methodological limitations and professional disagreements, it is possible to draw some important conclusions from the work of development researchers in the past forty years.

The contribution of aid to economic growth is positive, but limited

Development economist Paul Collier maintains that in the past 30 years, aid has probably increased the annual growth rate of the poorest countries by approximately one per cent, and that “Without aid, cumulatively the countries of the bottom billion would have become much poorer than they are today”.⁷ Seventy per cent of this billion are women and girls. It is nevertheless important to have moderate expectations about the extent of the overall effect of aid. More recent theoretical models, and the reduced relative importance of aid, indicate a far more modest potential for aid to stimulate economic growth than was assumed in the first decade of development assistance.

⁷ Paul Collier, *The Bottom Billion*, Oxford University Press, 2007

Aid clearly gives results for a number of individual factors that stimulate growth

A large number of studies and evaluations refer to positive results at project level. Whether the results relating to infrastructure, knowledge, technology and institutions are translated into sustainable economic growth and development is determined by factors over which aid has little influence.

Aid promotes long-term economic development

It is important to consider the fact that aid also has an indirect impact on economic development. Changes in education and health for an entire population take place slowly, and the positive impact of this on economic growth emerges even later. For example, it will take many years for improvements in basic education to be translated into noticeable improvements in the level of education of adults of working age, and for inequalities between men and women to be levelled out. Many developing countries have made great progress in the last three decades in the form of improvements in social indicators. Perhaps this will soon begin to result in increased per capita income. In cases where aid has largely been used to increase funding for social purposes, in line with the UN Millennium Development Goals, it is probably realistic to view the relationship between aid and growth in a 30–40 year perspective.

Aid has contributed to nation-building

The building of a functioning state apparatus with popular legitimacy is a prerequisite for economic development. Researchers disagree about how aid has worked from a historical perspective. It is reasonably clear that aid has been most effective in countries with relatively well-functioning institutions. In new nations that have developed from a difficult colonial past and violent conflicts, the role of aid is controversial. Some people maintain that too much aid may have had a negative impact on governance, while others refer to the important role played by aid as a stabilising factor that has allowed for the growth of national identity.

There is no single answer

It is difficult to draw definite conclusions about whether aid, as a whole, stimulates growth. This is because much of the basic data are still weak, growth processes are complex and unpredictable, aid must primarily go to the countries with the greatest problems, and aid to support social development has demographic consequences that in turn affect economic development.

THE ROLE AND IMPORTANCE OF AID IN THREE COUNTRIES

Uganda: Envalert Fruit Drying Facility has dried and exported fruit since 2005. A total of 54 farmers supply pineapple, mango, bananas, papaya and other fruit which are dried, packed and exported. John Kasimaggwa peels the pineapple before it is cut and dried.



Aid is provided for countries with very different preconditions for achieving economic development. Malawi, Uganda and Vietnam vary widely with respect to both economic development and aid. Even if it is impossible to draw any general conclusions on the basis of the differences and similarities between the three countries, studies of individual countries provide valuable insights into the factors that can limit or enhance the effectiveness of aid.

Several important factors become apparent when we consider the success of Vietnam, including the authorities' ability and capacity to formulate and implement economic policy. The policy has been widely supported within the country and realistic given the international economic climate. Uganda similarly achieved good results from its economic policies and aid in the 1990s, while Malawi has only begun to achieve economic development in recent years based on agriculture.

COMMON CHALLENGES – DIFFERENT CONDITIONS AND RESULTS

About twenty years ago, there was little difference in average per capita income between Vietnam and Malawi, while Uganda was slightly behind (see figure 2.1). They were all among the world's poorest countries.

All three countries had characteristics that were described as typical of poor countries in Chapter 1, but to varying degrees: underdeveloped physical capital, low competence level (human capital), low technological level and weak institutions. Vietnam was in a stronger position than the other two, and Malawi was in the weakest position. The quality of public administration and the gen-

eral level of education are two important areas where Vietnam had a better starting point. Vietnam is also different with respect to its cultural and political history, and has succeeded despite several decades of more or less continuous war until the mid-1970s.

By 2007, average income in Vietnam had more than tripled (since 1985), while in Malawi it was roughly the same as 20 years before. Uganda's development was between that of the other two countries, with approximately 80 per cent income growth. Vietnam's economic growth has resulted in a rise in income for many of the poorest people. The most common measurement of a country's level of extreme poverty is the percentage of the population living on an amount or consuming the equivalent of USD 1.25 per day. The differences in price levels between countries are taken into account so that the figures are comparable. World Bank statistics show that the proportion of poor people in Vietnam was 64 per cent in 1993. In 2006 it had dropped to 21 per cent. Malawi and Uganda have also made progress in the fight against poverty, but the proportion of poor people in these countries is several times higher than in Vietnam. In Uganda, the proportion of poor people fell from



69 per cent in 1989 to 60 per cent in 1999 and to 52 per cent in 2005. In Malawi the proportion of poor people was 83 per cent in 1998 and had fallen to 74 per cent in 2004.

Vietnam's development not only differs clearly from that of the two African countries, Vietnam is probably the country in the world that has achieved the greatest reduction in the proportion of poor people in the course of just over a decade. There have also been significant improvements in other aspects of people's living conditions. In Vietnam, life expectancy at birth was 61 years in 1985 and is now 75 years. In Malawi it was 47 years in 1985 and is still at the same level. The extent of the AIDS epidemic is an important reason in this case.

All three countries have received substantial amounts of aid. While Vietnam has received the most aid, aid has accounted for a far greater proportion of the economy in the two African countries than in Vietnam throughout the entire period (figure 2.3).

Malawi is the most aid dependent country. To shed light on the role aid has played in development we must describe both the main trends in aid and trends in the context in which aid has functioned, including the main trends in the countries' economic development, important reforms and characteristics of their social and political systems.

VIETNAM

An internally driven reform process

In 1986, the Vietnamese communist party adopted a radical reform programme called *Doi Moi*. Its purpose was to replace the centrally-controlled planned economy with a regulated market economy. The reforms were first implemented in the dominant economic sector, namely agriculture, characterised by collectives where productivity levels were very low, not least due to the lack of connection between work input and economic return for individual labourers. The reform process did not entail complete market liberalisation, but the changes were extensive and led to accelerated development. In the course of a few years, farmers were allowed to sell parts of their crops on the free market, price regulations were removed and col-

FIGURE 2.1 The difference in purchasing power is substantial, despite similar starting points

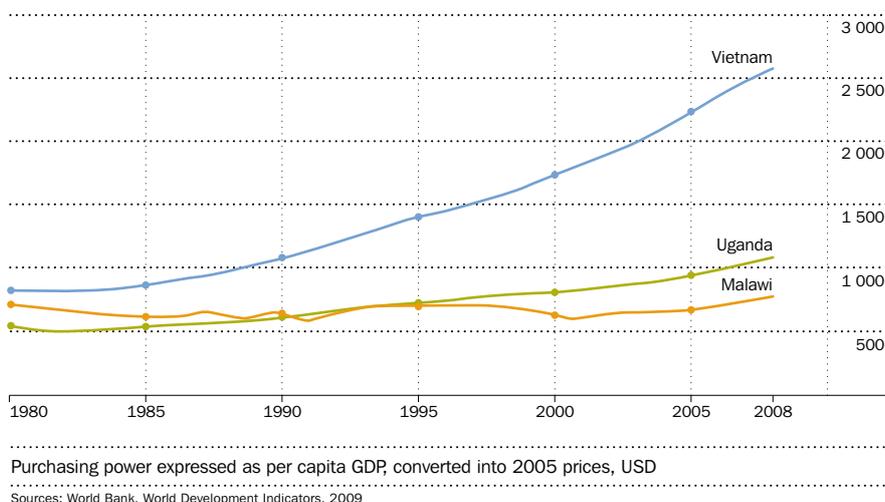
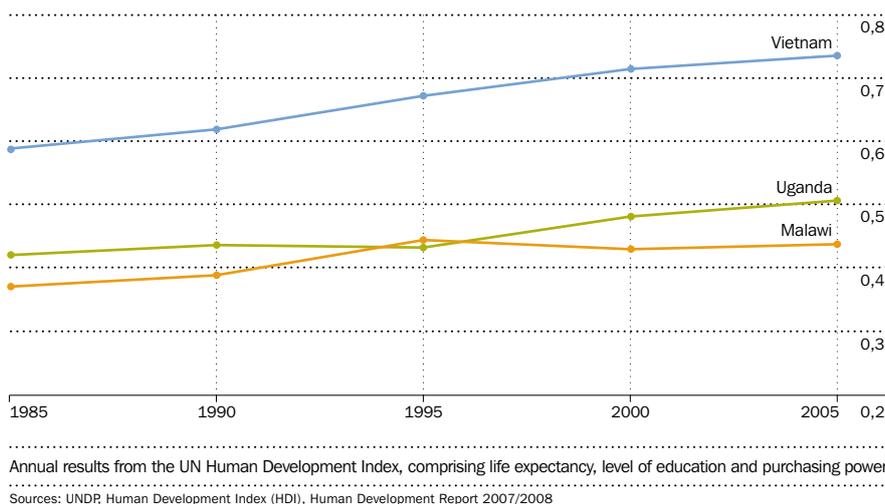


FIGURE 2.2 Living standards in Vietnam have improved steadily for many years



lective land was divided up and made into individual farms. This took place through an egalitarian distribution mechanism, whereby the land was remarkably equally divided⁸.

Incomes grew significantly and the proportion of poor people declined, partly because increased productivity in the agricultural sector freed up time for other income generating activities. Over a period of around five years, Vietnam changed from being a net importer of agricultural products to the third largest exporter of rice in the world in 1992 and, a few years later, the second largest exporter of coffee.

Another part of the reform programme that had a strong impact on productivity and profitability was the privatisation or closure of a large number of unprofitable state enterprises. The number of state enterprises was halved in the three years from 1989. Approximately 800,000 workers lost their jobs, but as a result of increasing activity in the private sector of the economy, most of them found other productive work.

In parallel with these economic reforms, the authorities gradually opened the way for freer trade with other countries and direct investment in Vietnamese industry. Industry's share of GDP increased from just over 25 per cent in the mid-1980s to more than 35 per cent after the turn of the millennium. Public in-

⁸ Ravallion and van de Walle (2001)

vestments have been dominant in Vietnam, but foreign investments have made a significant contribution, accounting for more than 30 per cent of total investments in the mid-1990s.

The economic growth that began with *Doi Moi* accelerated from the end of the 1980s and, with the exception of a few years of weaker growth towards the end of the 1990s, has been high up to the present day. In the same period, population growth has been significantly lower than in Uganda and Malawi.

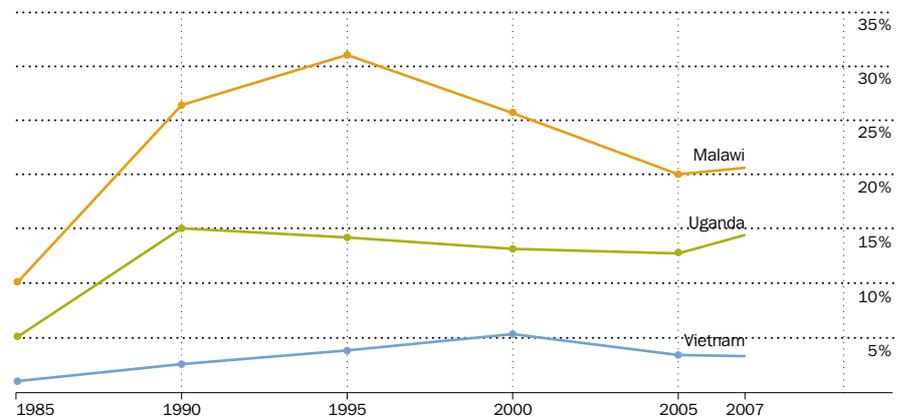
Aid from the West played a part

When the increase in aid from countries in the West, Japan, the World Bank and the Asian Development Bank began in the early 1990s, Vietnam was one of the poorest countries in the world. The Soviet Union, other eastern bloc countries and China had provided a substantial amount of aid since the 1950s, but it was then reduced. The country was ravaged by a war that had been going on in parts or all of the country from the time of the Japanese occupation in 1941 until the Americans withdrew in 1975. Extensive American bombing had ruined much of the country's infrastructure and production capacity.

The new aid was largely adapted to this situation, and a substantial and growing proportion of aid for Vietnam has targeted economic development. Aid for infrastructure and the energy sector has accounted for a large and growing percentage. These areas gradually came to account for more than half of development assistance. A substantial amount of aid was also spent on development of public administration, education and health.

Focus on development cooperation as an arena for the transfer of ideas and expertise is important in understanding the role of aid in Vietnam's economic development. Aid was increased in a period when a significant national reform process was already under way. The country's authorities were looking for ideas and competence, and combined them with a large degree of ownership of their own policy. Ideas from outside came not only from donors and international organisations. In development cooperation,

FIGURE 2.3 Although Vietnam has received the most aid, development assistance has accounted for a larger percentage of the economy in Uganda and Malawi



Total aid as a percentage of GDP

Source: World Bank (World Development Indicators)

arenas were also established where the Vietnamese authorities gained access to the lessons learned by other Asian countries that had been highly successful, including Indonesia, South Korea and Malaysia.

The result – sustained strong growth

In conjunction with the reforms, the increase in aid facilitated efforts to redress the country's deficit and direct the use of public resources towards the development of infrastructure and public services. The change in policy has also made it possible to keep inflation under control, while decentralisation has been important in improving the efficiency of the public sector. Not least, the decentralisation of financial responsibility has come a long way in Vietnam. This boosts financial discipline and helps ensure that the use of resources is adapted to local conditions.

If we consider overall development in the past twenty years or so, we can conclude that Vietnam has largely been a success story. Development has been driven by nationally-based reforms. Development assistance has supported them and helped to reinforce progress by providing financing and transferring ideas and competence, which has made an important contribution to nation-building. It is therefore reasonable to assume that aid has contributed to the country's success and the fact that Vietnam is increasingly less dependent on aid.

UGANDA

Reforms in partnership with donors

In the mid-1980s, Uganda entered a period of major political changes, combined with a sharp rise in international aid. The authorities drew up a reform programme with the support of the IMF and the World Bank. Macro-economic stability, more business-friendly legislation and export-driven growth were central elements of the programme. As in Vietnam, one element of the reform process entailed winding up state-run enterprises with a view to achieving more competition and greater profitability. At the end of the 1980s there were approximately 150 state enterprises that accounted for around 25 per cent of total industrial employment. In 1992, when a privatisation programme was initiated, these enterprises were subsidised by an amount equivalent to half the state revenues, excluding development assistance. The reduction in state ownership has boosted production and productivity, strengthened state finances and increased investment⁹.

From a qualitative point of view, there are also certain similarities with Vietnam in areas such as trade policy and restructuring of enterprises, but the changes have been less extensive in Uganda. Foreign trade was liberalised, which led to a rise in exports as a proportion of GDP. Especially important reforms were implemented in the coffee sec-

⁹ Fagernes, 2004

tor. The industry's share of the economy increased somewhat but, as a proportion of GDP, it stopped at around 19 per cent, far less than Vietnam's 35 per cent. There was a similar stop in the growth of exports and foreign investment. In recent years, growth has to a greater extent been driven by the service industries.

Aid a crucial factor

The tax base was narrow and external financing was essential to be able to implement the political reform programme. Throughout the 1980s, government revenues had been around 3–4 per cent of GDP. Aid increased from around five per cent to more than 15 per cent of GDP towards the end of the 1980s. Budgets could therefore be increased. Public expenditure rose from around ten per cent of GDP in 1986 to more than 20 per cent in 1991/92 and has since varied between 17 and 24 per cent of GDP¹⁰.

During this period, aid particularly contributed towards financing the development of infrastructure and services. In the 1990s, the Government pursued a policy that was largely aimed at improving the situation for poor people, among other things by significantly strengthening the education and health sectors. At the same time, macro-economic stability was good, with moderate budget deficits and relatively low inflation.

In 1997, Uganda was the first country to draw up a plan whose format was approximately the same as that of today's national plans for economic development and poverty reduction (PRSP)¹¹, on the advice of UNDP and the World Bank. On the basis of this plan, donors increased budget support, both as a proportion of aid and in total. This indicated donors' increased confidence in government policy and strengthened the authorities' possibilities for pursuing this policy. Uganda was also the first country to qualify for debt relief through the IMF and World Bank Heavily Indebted Poor Countries (HIPC) initiative. Cooperation between the Ugandan authorities and donors was good throughout the 1990s, and the high degree of predictability and stability in disbursements made a positive con-

tribution to the foundation for good, long-term macro-economic governance.

The result – strong growth but an uncertain future

In 1985, Uganda was poorer than both Vietnam and Malawi. The economy and the nation's life as a whole were affected by the fact that the country had been through a long period of economic and social unrest. The country had been misgoverned for long periods of time, not least under the infamous dictator Idi Amin. GDP had dropped by an estimated 40 per cent in the period 1971–1986 and annual inflation had tripled.

At the start of the 1990s, political stability had improved significantly under the leadership of President Museveni and his National Resistance Movement, although the country struggled with internal conflicts in the north. In the past 20 years, annual economic growth has been almost seven per cent, which means that Uganda has had one of the most rapidly growing economies in the region. Other aspects of development have not been favourable, so the degree of success has been far less than in Vietnam. The population has doubled since 1990, with the result that per capita GDP growth is only half of GDP growth. The country has the youngest population in the world – more than half are less than 18 years of age. This will pose a formidable challenge in the years ahead in terms of ensuring growth and more jobs. The population's state of health is also extremely poor.

The competence of employees and the quality of Uganda's public administration are regarded as being relatively high compared with other countries in the region. The Ministry of Finance and the Ministry of Planning were amalgamated to form a single, strong ministry in 1991 and Uganda was one of the first countries to use an overall framework for three-year budget planning. Thanks to these initiatives, policies have been relatively coherent and coordinated for long periods of time.

Uganda's development mirrored that of Vietnam for a while. But in Uganda development was not as all-embracing. In the agricultural sector it has not been possible for more farmers to change to market-oriented production. The proportion of farmers who only

produce for their own consumption is little changed. Development has been affected by factors outside the authorities' control, such as hurricanes and droughts in 1997 and 2001/2, which had a detrimental effect on the economy and especially the most vulnerable people.

Political development in Uganda has not been as many western donors, including Norway, had hoped. Museveni clings to power and in 2006 ensured his re-election for the third time through a constitutional amendment. As a result of this and some serious corruption scandals, as well as the role played by Uganda in regional conflicts, several donors have been unwilling to make new aid commitments. It is uncertain what role aid will play in the years ahead, but it is fairly certain that the challenges facing the country in its efforts to achieve economic growth that also reduces poverty will be no less difficult.

MALAWI

Weak national support for reform

While the reform programmes in Uganda, which were drawn up and implemented with the support of the World Bank and the IMF, had many successful elements, similar programmes in Malawi have proved to be problematic. A pivotal part of the reforms entailed privatising state enterprises and deregulating and liberalising foreign trade and agriculture. While the privatisation and closure of state enterprises in Vietnam, and partly in Uganda, made room for the growth of private business and industry, there was little new growth in Malawi. This part of the programme was unsuccessful in relation to the goal of increased economic growth.

In addition to weaknesses in the reform programmes, for which the donors and the multi-lateral organisations share part of the blame, the country's economic policy has been hampered by poor financial discipline, which has also undermined the possibilities for broader, stronger economic growth. In certain periods, external factors, such as weather conditions and the international economic situation have had a grave effect on the economy. Malawi was also affected by the flow of refugees due to the war in its neighbouring country, Mozambique. The prices on Mala-

10 Fagernes, 2004

11 Poverty Reduction Strategy Paper (PRSP)

wi's export commodities have at times weakened compared with prices on imported goods, thus intensifying the problems for Malawi's balance of payments. The most recent examples of this were the sharp rise in the price of oil and fertilizers in 2007–2008, and the decline in prices of important export goods due to the global economic crisis.

Turbulent aid relations

Malawi is one of the poorest countries in the world and is highly dependent on aid. In the same way as for Vietnam and Uganda, international aid was increased from the end of the 1980s, but it did not reach a high level until the dictator, Hastings Banda, relinquished power in 1994. Development assistance then exceeded 30 per cent of GDP. Norway became a bilateral donor with its own embassy in 1998. Development cooperation with Malawi has been affected by the state's poor administrative capacity and the unpredictability of political processes.

If we compare donor behaviour and cooperation between the authorities and donors in Malawi and Uganda, cooperation with Uganda has largely been more successful than with Malawi. The lessons learned also illustrate that national ownership of policy is extremely important for the achievement of results. This is especially clear in a comparison with Vietnam. Aid has fewer possibilities for boosting economic growth when the authorities and donors pull in different directions. For example, donors stopped budget support for Malawi in the election year 2004 as a result of poor financial management. Evaluations of aid in Malawi and other recipient countries point out that donors' approach to public reforms often is too technical paying too little attention to and have too little understanding of the importance of reward systems, power structures and political will for successful reform processes.

The result – weak, unstable growth

After independence from the British colonial rule in 1964, Malawi was a dictatorship for 30 years. In the first half of the period up to the present day, economic growth was high at almost six per cent annually, but growth was concentrated in a few large agricultural plantations. In the 1980s this vulnerable economy was affected by several crises.

There was little development in smallholder agriculture, which still dominates the economy. Like Uganda, Malawi does not have a coastline and freight costs to ports in neighbouring Mozambique are high. Industry is little developed and accounts for only 12 per cent of GDP. There is a limited potential for increasing revenues from natural resources, even though a uranium mine has recently been opened and titanium deposits have been found.

Although the last five years have marked a period of favourable economic growth, development has been extremely weak in the period since 1985 as a whole. Per capita GDP showed little change from 1985 to 2005. GDP increased by 30 per cent in the first ten years, but population growth was as high as 37 per cent, which led to a decline in the average income level. There has been a clear improvement in the relationship between economic growth and population growth in recent years.

In the mid-1990s, the budget deficit exceeded 30 per cent of GDP and donors responded by cutting development assistance after which the government managed to tighten public spending. Similar problems peaked again at the beginning of the millennium. After droughts and floods, harvests were disastrously low necessitating purchase of maize on the international market. This had a serious impact on the national budget. Inflation and interest rates had been very high since the mid-1990s, which reduced the possibilities for attracting investments that could have helped to strengthen economic development.

Since 2005, annual economic growth has been approximately eight per cent. Economic policy has for some time reflected significantly stricter budget discipline, which it is reasonable to link to donors' emphasis on economic governance and aid in the form of budget support. Good weather conditions and the extensive state subsidy programme for fertilizer have resulted in strong growth in the agricultural sector in recent years. Subsidised fertilizer is rationed using a coupon system. Although the system has proved vulnerable to corruption and black market trading, reviews indicate that the poorest people have benefited relatively well from the system. The system also has strong popu-

lar support. However, questions might be asked about whether the considerable sums of money spent on this system should rather have been spent on other measures with greater development effect, such as infrastructure development. The economy is now being increasingly affected by the international economic situation. High import prices for fertilizer weakened the budget and the balance of payments in the last budget year, and the international financial crisis is now affecting the country in several ways.

Although Malawi's public administration and political system are still weak and pose a serious challenge to efforts to achieve more rapid development, considerable progress has been made in comparison with twenty years ago. The improvement in the control of state finances is the result of stronger political will, but much remains to be done in important areas of governance, such as anti-corruption activities and the state auditing function. Although the improvements in Malawi's economic governance have improved the foundation for continued growth, the economy is still very vulnerable. Recent developments indicate that there is now a danger of a setback, both in budget discipline and in the form of weaker economic growth.





SUMMARY

Looking at these three examples it is striking that the most aid-dependent country, Malawi, has achieved the weakest development, while the least aid-dependent country, Vietnam has achieved the strongest development. Uganda lies somewhere in between. Still, it is hard to find clear links between growth and aid, even using data from many countries. This does not give grounds, however, for drawing a general conclusion that aid has not made a positive contribution to development. The question of what development would have been like without development assistance will never be answered.

In Vietnam, aid has played an important role in supporting national policy, even though aid's share of the economy has been less than in the African countries. Both the expertise and the ideas that have been transferred together with financial resources have been in demand and have often been used effectively. The same applied to Uganda in the 1990s, when aid played a stronger financial role.

In Malawi, the financial part of aid has played a varying role and had a varying degree of success in the period covered by this report. In recent years, aid has been linked to a more responsible, poverty-oriented policy and has contributed to favourable economic development. However, around the turn of the millennium there was a situation where a poor economic policy was exacerbated by donors' cuts in development assistance.

The vast difference between Malawi and Vietnam illustrates the challenges and dilemmas one faces when providing aid with a view to promoting long-term economic development. There will be periodic setbacks, as seen in Malawi, that must be viewed in light of the extent of capacity building and political change required. This is a delicate process that takes many decades. For some countries, aid will mean rapid results. For other countries, the results will come later, or perhaps not at all. These are often the countries that need aid the most.



3

STRENGTHENING ECONOMIC GOVERNANCE

Malawi: The Mpamuritha Dam had been damaged for 25 years, but was repaired in November 2008 thanks to Norwegian aid funding. The dam and new irrigation channels now make it possible for farmers to cultivate three crops a year.



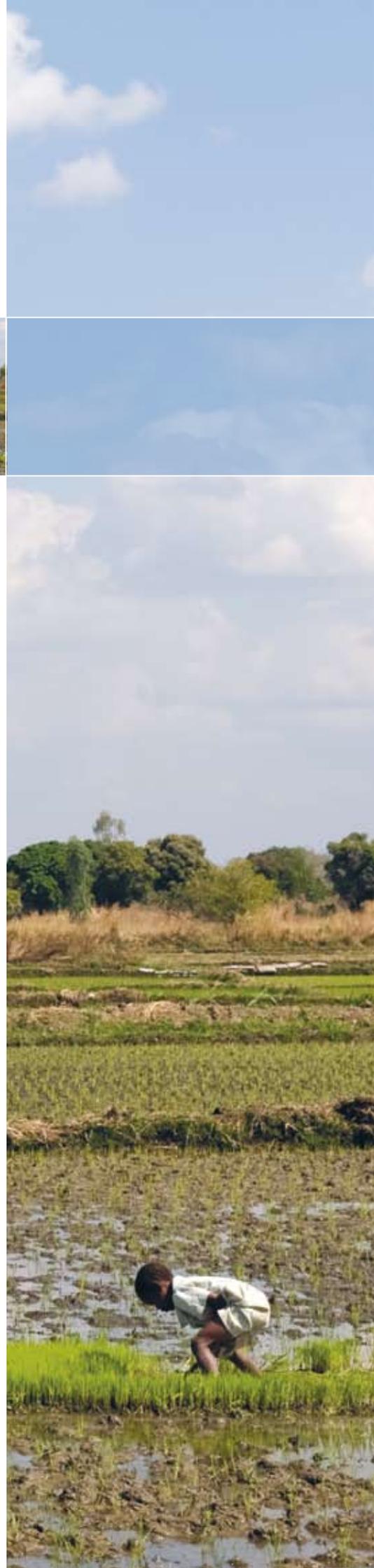
Despite certain setbacks and serious unresolved problems, aid for economic governance has generated significant results in areas that increase recipient countries' potential to improve economic development. Progress in the field of macro-economic management, the formulation and implementation of budget policies, the prioritisation of public funds and control and monitoring of the use of funds has been documented in many countries.

For example, in the ten-year period from 1995 to 2004, Tanzania re-established macro-economic stability with low inflation and stronger economic growth, established a sound public financial management system and initiated crucial institutional and structural reforms. Over time, the results in such areas will be reinforced because they contribute to processes that typify favourable economic development.

Economic governance includes the political-economic system in a country and the conduct of the people within the system. There is a close connection between economic development and good economic governance. Macro-economic stability, economic growth and good public service production are characteristics of good economic development. At the same time, these factors strengthen countries' ability and potential to allow economic development to benefit the poorest people, and to promote gender equality. Good economic governance also includes markets. Well-functioning markets are essential in an economy that aims to ensure growth and improve income opportunities for the poorest people. An active civil society and a free press are also important in promoting transparency and accountability within government.

This chapter describes the results of various forms of aid aimed at strengthening the public sector in recipient countries. The main emphasis is on bilateral assistance, especially budget support and support for public sector reform programmes and anti-corruption activities. Some multilateral agreements are also presented.

Although many results can be achieved in the short term, strengthening economic governance often entails long-term processes. It is not only a matter of improving systems and introducing new regulations and institutions but also, to a large extent, of establishing new behaviour patterns, building relations and trust, and spreading new competence from bottom to top in society. With a few exceptions, assistance to improve economic governance is based on supporting processes of change in the recipient country's public administration. This is where budgets and laws are drawn up, adopted and implemented. Depending on the situation in the country concerned, development assistance supports efforts to strengthen public administration and improve political processes.



The budget support debate

When is budget support an effective form of aid, and what degree of tolerance should donors have for undesirable developments and events before they cut budget support? Before choosing what kind of aid will be provided for a country, thorough investigations are carried out of the situation in the recipient country concerned. Risk relating to political decision-making or administrative weaknesses in the recipient country may weaken the development effect of all development assistance. Such problems are especially apparent in the case of budget support, since it is channelled through the country's own national budget. The examples given in this chapter show that, in many cases, budget support has worked as intended and produced results. There may also be no results. Donors may disagree on the authorities' priorities, and public funds may be misused or embezzled. The question of cutting budget support in such instances is weighed against the damage this reaction may do to long-term development in the recipient country. In many cases when such problems arise, it may be better to focus on dialogue and long-term considerations rather than reduce planned disbursements.

It is often pointed out that, through general budget support, we help to finance activities we do not wish to support. This risk is particularly obvious in the case of budget support, but it often also occurs when aid is earmarked for specific projects or activities. Giving large sums for the health sector or road construction also provides the government greater freedom of financial action. These funds can enable the government to prioritise other areas.

The challenges associated with budget support must be balanced against the weaknesses of earmarked assistance. In many cases, earmarked assistance will be effective for the achievement of results in individual areas, but experience shows that, in many cases, the secondary effects that are important if aid is to promote broader, long-term development do not materialise.

IMPORTANT ELEMENTS OF NORWAY'S DEVELOPMENT ASSISTANCE

Norway's assistance to improve economic governance is primarily provided through measures in the field of public financial management, often in combination with budget support. In recent years, Norway has also been more strongly involved in the fight against corruption.

Public financial management

Good financial management is important for the achievement of good economic development and poverty reduction. Public financial management covers the entire national budget process, including political budget priorities, payment and procurement systems, public revenues and accounting and auditing processes for public bodies at central and local levels. In accordance with the Paris Declaration¹² donor countries have com-

¹² In Paris in 2005, 91 countries agreed on a declaration of principles for aid effectiveness. A number of international organisations also contributed towards drawing up the document.

mitted themselves to more frequently using recipient countries' own financial management systems instead of developing parallel systems.

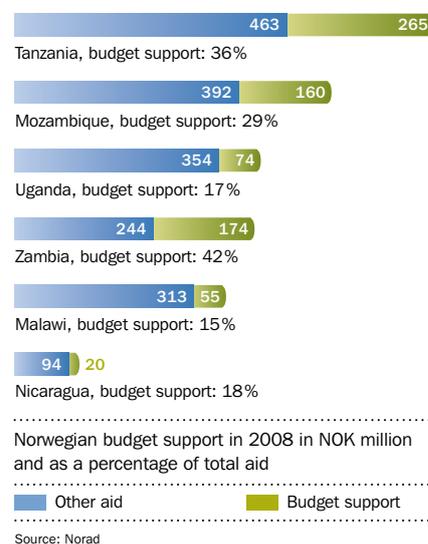
Norway supports financial management reforms through co-financing and bilateral cooperation in Tanzania, Kenya, Malawi, Zambia, Uganda and Mozambique. Norway also provides budget support for all these countries, except Kenya.

Budget support

General budget support is not earmarked but supplements the national budget of the recipient country and is combined with the country's own tax and other revenues. This type of aid therefore covers almost all areas of society that are subject to government policy, although donors may place different emphasis on different sectors and policy areas.

Norway provides long-term, bilateral budget support for Mozambique, Tanzania, Zambia, Malawi, Uganda and Nicaragua (to be wound

FIGURE 3.1 Budget support accounts for a large percentage of overall Norwegian aid to certain countries



up in 2009). Norway also provides budget support through the World Bank for three fragile states: Burundi, Afghanistan and the Palestinian Territory.

Budget support helps to strengthen a country's economy by increasing the supply of foreign currency. Budget support strengthens the national budget and supports a national plan for economic development and poverty reduction. The governments of recipient countries are accountable to their own citizens for the use of public funds, but they are also accountable to donors. To receive budget support requires good economic governance. In addition to providing funds for areas such as health, education and infrastructure, this aid modality is intended to reinforce efforts to improve a country's economic governance. In Malawi, budget support was withheld for a certain period of time because the country did not exercise satisfactory economic governance.

CHARACTERISTICS OF GOOD RESULTS FROM AID

The overarching goal of providing support for economic governance is to promote economic development and poverty reduction. Due to the complicated connections between aid and economic development, and because the processes take a long time, in monitoring results we will have to look for both spe-

cific results in the public administration as well as general results linked to poverty reduction and economic development.

As regards public financial management, there is relatively broad agreement on some overarching principles regarding the characteristics of a good system, such as transparency and clearly defined areas of responsibility. More detailed, and internationally agreed, criteria for good quality public financial management have also been specified.

Measuring results in public financial management: PEFA

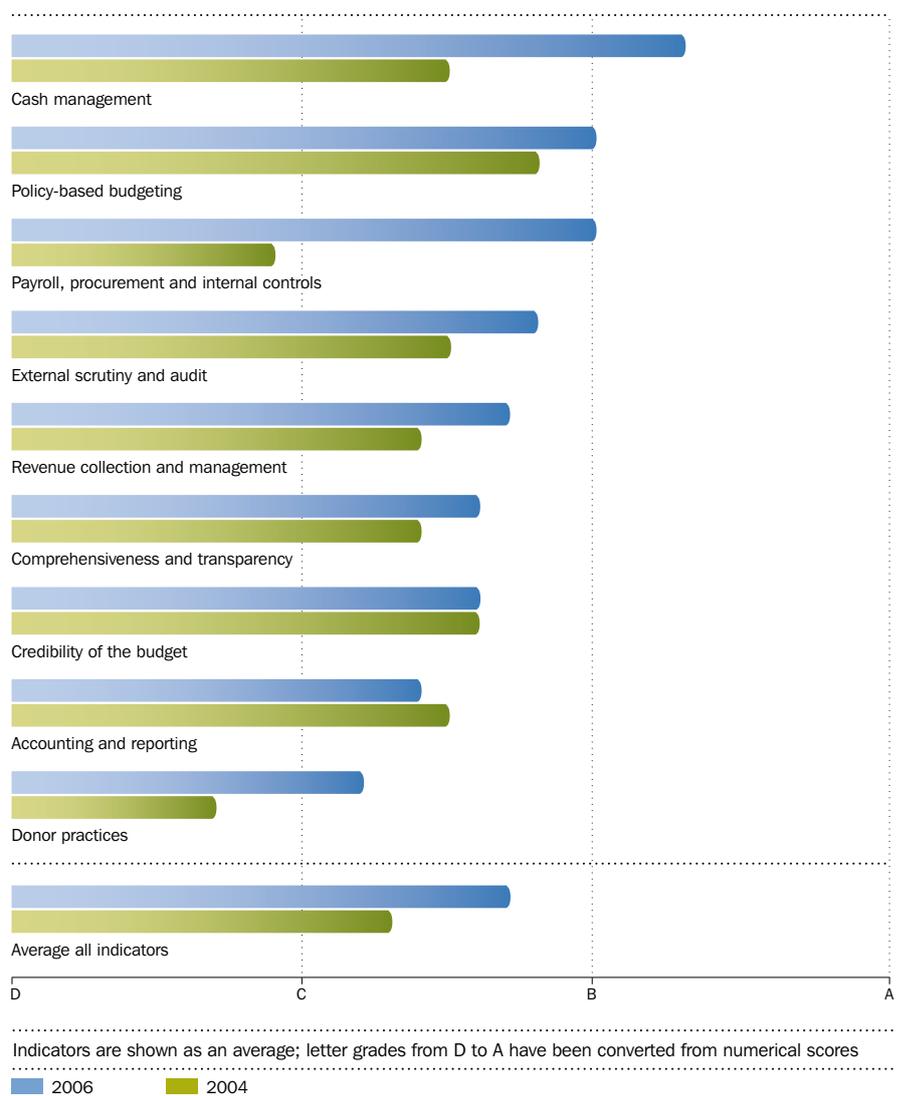
The Public Expenditure Financial Accountability (PEFA) programme is a partnership between the World Bank, the International Monetary Fund (IMF), the European Commission, the UK, Switzerland, France and Norway. The purpose of the PEFA programme is to promote joint, evidence-based assessments of reforms of public financial management. PEFA studies are the authoritative evaluations of the quality of financial management on which the entire donor community bases its operations.

Through the PEFA programme, Norway has access to a framework of indicators for assessing the strengths and weaknesses of a country's public financial management performance. These indicators are also useful in evaluating budget support and other development assistance. PEFA analyses provide a basis for assessing the achievement of results in financial management in a country through a set of measurable criteria. Since the framework was introduced in 2005, such analyses have been carried out in more than 90 developing countries. Norway has also used the framework to evaluate public financial management in Norway.

The analyses can provide a basis for developing and ranking priorities within reform programmes aimed at strengthening systems. They also provide an important basis for donors' decisions concerning the extent to which they wish to use recipient countries' own systems.

The framework divides financial management into areas such as the political and administrative process behind the budget proposal, the degree of transparency in the man-

FIGURE 3.2 Mozambique has improved its financial management in several areas



Source: Assessment of Public Finance Management in Mozambique, 2006. Based on the PEFA Methodology, April 2008

agement of revenues and expenditure, accounting routines, auditing and follow-up by parliament and the government. On the basis of a precise set of criteria, scores are awarded on a scale where D is weakest and A is best. Figure 3.2 above gives a picture of the main conclusions from PEFA assessments in Mozambique in 2005 and 2007. The bars for each year indicate how good the quality of the specific areas within financial management is considered to be.

PEFA will assist efforts to reform financial management by giving an overview over strong and weak areas, as shown in the figure above. The detailed information underpinning such overall assessments will often be at least as important, since they bring to

light and document strengths, weaknesses and the need for reform. It is not primarily the actual scores achieved in a particular area that is most important, but the systematic investigation behind it. One example of this is the inspection of salary payouts in Mozambique. As may be seen from the figure, the PEFA analysis for 2004 drew attention to this as a neglected area and reforms were implemented. The analysis for 2006 reflects the fact that the measures that were implemented had improved the situation.

The achievement of budget support targets

The follow-up of budget support by Norway and other donors is done in close dialogue

with the national governments. Setting targets for the coming year and reviewing the results achieved are pivotal in such reviews. The reviews are normally carried out at annual meetings. Relevant authorities present reports that describe developments in all sectors and areas covered by the national plan, with specific reports on the targets that were agreed the previous year. Such targets may vary in type. For example, in one area the target may be that a particular legislative proposal is to be submitted to parliament, while in another area the target may be to improve the situation for a specific group of people, for instance to reduce infant mortality.

Table 3.1 gives an overview over the percentage of targets achieved for groups of indicators in six countries that receive budget support. This is a rough way of dividing the data into sectors and there may be significant differences in the indicators that are placed in the same sector. The table shows the percentage of targets that have been achieved completely. When a target is achieved this is recorded as progress, but the degree of progress will of course depend on the targets' level of ambition. Countries with a higher percentage of target achievement in a particular area have not necessarily made the greatest progress, because other countries with more ambitious targets may have made more progress and yet not have totally achieved their targets. The figures nevertheless show some interesting patterns.

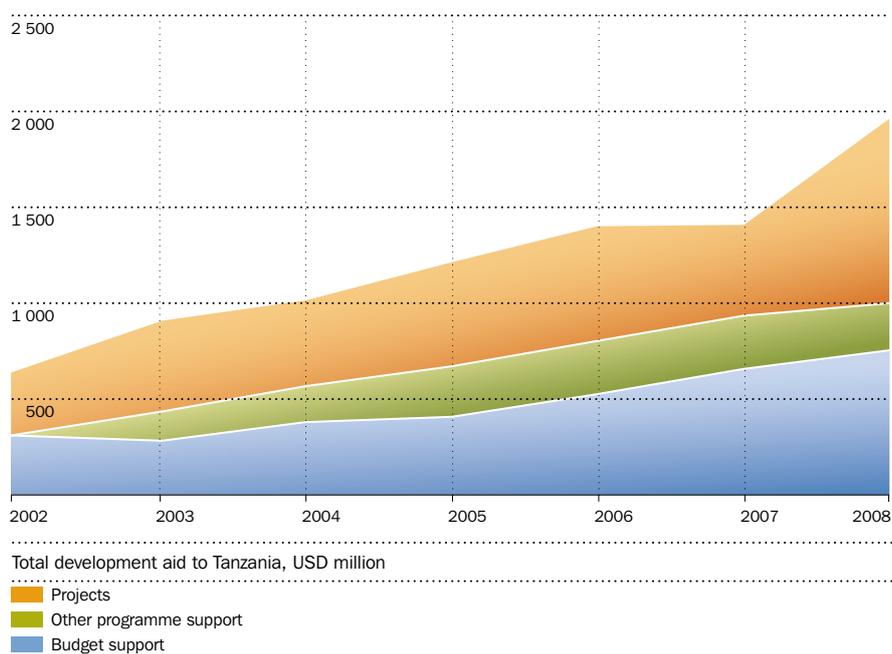
EXAMPLES OF RESULTS OF NORWEGIAN AID

Improved financial management in Tanzania

The goal of budget support for Tanzania is to support the authorities' implementation of the country's national strategy for economic growth and poverty reduction (plan period 2005–2010). Under the current joint agreement with the government, 14 donors provided budget support of approximately USD 750 million for the 2007/2008 financial year. Budget support accounted for approximately 40 per cent of total development assistance for Tanzania, see figure 3.3.

Norway has provided general budget support for Tanzania since 2000/2001. The agree-

FIGURE 3.3 Budget support accounted for around 40 per cent of total aid to Tanzania in 2008



Source: Netherlands Foreign Affairs, Policy and Operations Evaluation Department – IOB, August 2009

ment for the period 2008/09 – 2010/11 amounts to a total of NOK 726 million. Budget support accounts for about 40 per cent of Norwegian bilateral assistance for Tanzania.

One important area for the budget support cooperation concerns improvements in economic governance in connection with the country's public financial management. The cooperation therefore includes target indicators that cover this area. In addition, during the past ten years, there has also been a special reform programme for the development of public financial management. This programme supports development efforts in 14 areas, including the central government budget process, accounting and reporting systems. The programme has been expanded to include several line ministries, local government, parliamentary control functions and Zanzibar.

A *joint evaluation* of budget support for Tanzania was carried out in 2004. The analysis covered the period 1995–2004 and included assistance similar to budget support (non-earmarked assistance) that was given to Tanzania in the years prior to the introduction of ordinary budget support in 2000. The evaluation refers to the fact that, in the ten-year period, Tanzania re-established macro-economic stability with low inflation and

stronger economic growth, established a sound public financial management system and initiated important institutional and structural reforms. It concludes that without budget support and the associated budget support dialogue with the government, it would have been significantly more difficult for Tanzania to achieve these results. During the period, there was marked political support for this process of change.

With the help of budget support, among other things, Tanzania doubled its public expenditure on poverty-oriented services in the period 1999–2003. This led to a significant improvement in services, including basic education and health. At the same time, the evaluation points out that the contribution to poverty reduction from budget support is indirect and long-term in nature. Even with increased annual economic growth of four to six per cent during the period concerned, there was no significant decline in income poverty. The evaluation points out that possible explanations are related to the fact that growth was greatest in urban areas and not in rural areas where the majority of people live, there was strong growth in the mining sector but not in agriculture where most people are employed, and incomes rose in the higher income groups but not in the low income groups.

TABLE 3.1 Large variations between countries with respect to the percentage of targets achieved in budget support cooperation*

	Malawi		Mozambique		Tanzania		Zambia		Uganda		Nicaragua	
	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007
Public financial management	64	64	62	56	67	50	43	83	50	56	100	67
Economic growth	–	0	14	36	65	45	75	33	100	60	100	83
Social sectors	75	57	64	64	45	67	78	82	100	44	33	100
Governance	44	29	29	60	100	38	20	25	75	64	27	67
TOTAL	61	45	45	54	65	52	61	60	80	56	50	81

Percentage of targets achieved completely in 2006 and 2007

*Results Reporting in Norwegian Budget Support Programs. Desk study prepared for Norad, Nordic Consultant Group, 2009 (see also Norad.no)

TABLE 3.2 Percentage of targets achieved in budget support cooperation in Tanzania in 2006 and 2007

Sector	Percentage of targets achieved (%)		No. of targets	Targets achieved	No. of targets	Targets achieved
	2007	2006	2007	2007	2006	2006
Public financial management	50	67	10	5	9	6
Economic growth and poverty reduction	45	65	20	9	17	11
Social sectors	67	45	18	12	11	5
Governance	38	100	8	3	6	6
TOTAL	52	65	56	29	43	28

Source: Results Reporting in Norwegian Budget Support Programs. Desk study prepared for Norad, Nordic Consultant Group, 2009 (see also Norad.no)

While Tanzania's national poverty reduction strategy from 2000 largely focused on growth in public services, such as health, basic education, access to clean water, etc., the revised national development strategy for the years 2005–2010 had a broader approach. The latter focuses on public economic governance, economic growth and poverty reduction, social sectors and improvements in welfare and governance. The targets and results framework was adapted to the revised development strategy. Table 3.2 shows the achievement of targets in the years 2006 and 2007.

The degree to which targets in budget support cooperation are achieved from one year to the next, as shown in table 3.2, must be interpreted with caution, since several of the indicators are changed from one year to the next when subsidiary targets are achieved or the parties agree to use improved individual indicators. At the annual budget support meeting in autumn 2007, the overall assessment by the government and donors was that the implementation of the national develop-

ment plan, measured in terms of the results framework, was satisfactory. In autumn 2008, the overall results for the year 2007 were considered to be somewhat poorer.

The Tanzanian authorities considered the progress made in 2007 to be satisfactory, but the donors did not share this view. While progress had been made in the financial sector, infrastructure and the tax modernisation programme, the results achieved in agriculture and the investment climate were unsatisfactory. Results from the household survey in 2007 showed only a slight decline in poverty from 2001 and development in Tanzania is therefore not rapid enough to achieve the Millennium Development Goal of halving poverty by 2015.

In the overall assessment, the achievement of targets in the fields of governance and public accountability was considered to be satisfactory. With respect to general governance, performance in local government, justice and payroll reforms was weak. The targets for investigation and indictments in ma-

ior corruption cases were achieved, but there are still serious challenges in the work against corruption. In the field of public financial management, there were marked improvements in results in the first part of the last decade relating to expenditure control, balancing of the budget, the introduction of new technology, training and updating of the legislation. In 2005, Tanzania's public financial management was considered to be the best in the region. In recent years there have been improvements particularly in the areas of tax administration, national auditing and procurement. Reform efforts have stagnated in other areas.

Improved economic governance and economic progress in Malawi

After a difficult start on budget support cooperation in Malawi, there have been many positive tendencies in the period since 2005. Significant progress has been made in important areas within public financial management. Macro-economic development has been favourable in recent years, even though

TABLE 3.3 Success rates in budget support cooperation in Malawi

Sector	Percentage of targets achieved (%)		No. of targets	Targets achieved	No. of targets	Targets achieved
	2007	2006	2007	2007	2006	2006
Public financial management	64	64	11	7	11	7
Economic growth	0	–	4	0	0	–
Social sectors	57	75	7	4	8	6
Governance	29	44	7	2	9	4
TOTAL	45	61	29	13	28	17

Source: Results Reporting in Norwegian Budget Support Programs. Desk study prepared for Norad, Nordic Consultant Group, 2009 (see also Norad.no)

the situation is now deteriorating because Malawi's economy has been affected first by high oil prices and then by the financial crisis.

Norway has provided general budget support for Malawi since 2000. The current agreement for 2005–2010 amounts to NOK 350 million, and in 2008¹³ NOK 70 million was paid out in budget support. The overarching goal of the budget support is poverty reduction, while macro-economic stability, economic growth and public service delivery are declared preconditions for achieving this goal. The main donors are the UK, the EU, the African Development Bank and the World Bank.

From the 2000–2001 financial year, budget support for Malawi was linked to the national development plan and thus became budget support in the modern sense. This was the year after Norway had established an embassy in Malawi, and budget support became a priority alongside health. In the financial years from 2000/01 to 2004/05, total support from donors varied significantly, without ever reaching a level where comprehensive results could be expected. Budget support reached a peak of ten per cent of the national budget in 2001/02, but was cut to zero the following year and then increased slightly to four per cent of the budget in 2004/05. In the 2008/09 financial year, budget support amounted to nine per cent of the national budget.

Compared with other countries, budget support cooperation in Malawi functioned less satisfactorily in the period before 2004/05.

A lack of order in government finances, with large deficits and generally poor economic governance, was a serious problem during that period, which to some extent came in addition to external crises, such as drought. In response to weak financial management, the donors stopped budget support several times. This intensified the problems in the short term, thus illustrating the dilemmas involved in imposing conditions in development cooperation. One might also ask whether the preconditions for providing budget support were sufficiently met at the start. The capacity of Malawi's public financial administration was extremely weak at that time, as was political governance in such a young democracy.

An evaluation concludes that budget support resulted in extremely limited improvements in the first five years after 2000. In areas such as policy formulation, service delivery and macro-economic governance, it was considered that little or no progress had been made. There had been a certain amount of progress in the area of public financial management, especially the statutory basis and, together with sufficient political will, this laid the foundation for a marked improvement in economic governance after 2005.

Budget support cooperation with Malawi is now based on a joint agreement between the donors and the government. The effects of budget support were assessed with the help of a matrix¹⁴ that covers a number of indicators. In table 3.3 the indicators are

grouped by sector and the percentage of targets achieved is given for each sector for the two years 2006–2007. The table presents a cross-section of development and may conceal important details.

Performance has been relatively good in the public financial management category. This reflects the fact that macro-economic development has been favourable, the budget has been reasonably balanced and followed up with good governance throughout the year, and progress has been made in reforms. There are also important areas where performance has been weak. There have been large budget overruns in certain areas, above all in a major subsidy programme for fertilizers. In the budget support cooperation there is emphasis on addressing the problems of major delays in the audit of state accounts and lack of follow-up on audit reports. In addition to general budget support, Norway provides support for institutional cooperation between the national audit offices in Norway and Malawi, and supports the Bureau of Statistics and the Parliament.

Performance related to indicators of economic growth has been weak. The assessment framework contains a few targets in important, although limited, areas that affect the way the economy works. Among other things, trends in the business climate are measured, especially how easy it is to start and close down businesses, as well as the implementation of reforms aimed at improving the efficiency of agricultural markets.

Performance in the social sectors – health and education – was relatively good. The results include an improved completion rate in primary school, more births attended by

14 PAF, Performance Assessment Framework. Shows all the targets and the extent to which they were achieved the previous year. Also shows the targets on which the donors and the authorities have agreed for the following year and tentative targets for two years ahead.

13 Applies to 2008–2009. The financial year runs from 1 July to 30 June.

skilled health personnel and progress in efforts to limit the spread of HIV/AIDS.

Although important progress has been made, the degree of target achievement has been weaker in the area of governance. This area includes indicators mainly relating to the legal system, democratisation, combating corruption and strengthening human rights. The anti-corruption agency is achieving results, and progress in democratisation was demonstrated when the elections proceeded relatively well in spring 2009.

Significant but fragile economic development in Afghanistan

Norway provides budget support for Afghanistan through the multi-donor Afghanistan Reconstruction Trust Fund (ARTF). A total of 27 donors contribute to the fund, which is administered by the World Bank. The main donors are the UK, Canada, the EU, the US and the Netherlands. Norway is also a relatively large donor and contributed NOK 100 million in 2009. Since its establishment in 2007, the fund has been the most important channel for coordinated support to the national budget, and aims to strengthen the government's ability to coordinate and follow up its development agenda.

Although this funding is defined as budget support, there are differences between this modality and the general budget support that is provided bilaterally. Budget support is provided to a state that is highly unstable and the overarching goal is to achieve lasting peace. Money from the Fund is incorporated in the national budget but is not paid out in a lump sum. Money from all the donors is deposited in a US bank account, and a steering committee allocates funds for specific purposes at monthly meetings with the government. The Fund is therefore a kind of reimbursement scheme for government expenditure. Hence, the budget support is based on national plans and priorities, but not disbursed in the same way as in countries where donors' funds are combined with the country's own revenues from taxes, etc.

More than USD 2.6 billion has been paid out. The Fund mainly finances recurrent expenditure (85 per cent), but it also finances investments. The Fund has financed approximately half of the payroll expenses for approxi-

mately 220,000 government employees. Management of the Fund has been in accordance with what is regarded as good practice for such funds in post-conflict situations.

In terms of development results, two areas are worth mentioning. Firstly, the Fund has helped to strengthen public financial management and increase the pace of reform. Secondly, people have benefited from enhanced public services and better infrastructure:

>> **Strengthening of the educational system.**

The Fund has enabled government to boost the national primary education programme. It has contributed to the construction of more than 800 schools, more than 2,500 school improvement plans, and training of more than 45,000 teachers.

>> **Support to local communities.**

Through contributions to a special programme for local communities, the Fund has provided resources for financing local development plans, small infrastructure projects, irrigation systems and hydropower projects. The projects have provided electricity and better opportunities for contacts with the outside world for more than 300,000 people.

>> **Access to micro-financing.**

The Fund has improved access to micro-financing. There are today 284 organisations in 24 provinces, serving more than 445,000 clients, 63 per cent of whom are women.

>> **Improvement of infrastructure.**

The Fund has contributed to financing for more than 3,000 km of roads. It is also strongly involved in the power sector. The Fund supports the rehabilitation of the country's two biggest hydropower plants and is one of the three largest investors in power distribution.

Considering the prevailing situation, macro-economic development in Afghanistan has been favourable. In the past five years, annual GDP growth has been around ten per cent. This is a high growth rate, but it must be remembered that it started from a low GDP level. The government's own revenues have also increased significantly and may be able to cover the government's recurrent budget within a five-year period. The Afghan authorities expect growth to continue at the same high rate in the years ahead, but there

are many serious impediments. Frequent insurgencies, the drug industry, crime and corruption are all factors that weaken the authorities' credibility and their ability to maintain law and order, and to develop favourable conditions for private investment and sustainable development. The investment climate in the private sector is fragile, and there are no clear answers regarding how to achieve stronger development in the private sector. Such development will be extremely vulnerable to setbacks in the security situation.

Fighting corruption

Corruption is a persistent and serious problem in all the main recipient countries for Norwegian development assistance, and efforts are being intensified in this area. Anti-corruption activities are closely linked to measures to promote good economic governance, and some initiatives take place through programmes that do not directly target corruption. For example, stronger financial management is important in reducing corruption. One effect of the measures that directly target corruption is that the extent of the problem becomes clearer. A high level of anti-corruption capacity leads to an increasing amount of corruption being exposed, which makes the assessment of results somewhat tricky. Anti-corruption activities, therefore, must be considered in conjunction with other measures that reduce corruption. In addition to direct assistance for the establishment of anti-corruption commissions and units combating money-laundering, Norway's efforts are focused on two main areas.

The *first* area is the development of the Norwegian-led Corruption Hunter Network. Eva Joly was the main architect behind this initiative, which was established and based in Norad in 2005 and consists of highly qualified investigators and the heads of anti-corruption units from a number of countries. The members share their experiences from major cases and campaigns they are working on, discuss various strategies, and find a breathing space for confidential discussions with others who are in the same boat. Corruption hunters are at risk in many countries.

In the first two or three years after the UN Convention against Corruption was adopted



in 2005, there was a generally positive trend in the fight against corruption in many countries. Members of the Network were chief investigators in very prominent cases, such as the Abacha case in Nigeria, the Suharto case in Indonesia and the Chiluba case in Zambia. Cases such as these do not always lead to final sentences, but they trigger national and international resentment that might warn off leaders who are considering similar crimes. In the past couple of years, anti-corruption work has slowed down in some poor countries and some corruption hunters have lost their jobs or resigned out of frustration. This includes some of the members of the Network, e.g. from Nigeria, Zambia, Madagascar, Argentina and Pakistan. Most of them continue to be members, partly because it gives them a certain amount of security and partly because they expect to return to their functions when the situation in their country changes. The Network also has members from the UK, Germany, Switzerland, Italy and Norway.

The *second* area concerns the fight against tax havens. Tax havens are particularly destructive for development in poor countries due to money-laundering and the concealment of illegally acquired fortunes. On this basis, in June 2008, the Norwegian Government established a committee of experts, the Commission on Capital Flight from Poor Countries, which presented its report in June 2009 (Norwegian Official Report 2009:19). The secretariat was based at Norad. The report contains analyses that have aroused international attention and helped to put the fight against harmful low or no-tax jurisdictions on the international agenda. It shows that without the secrecy of tax havens, it would be considerably more difficult for corrupt heads of government, businessmen and multinational companies to embezzle public assets.

Norway also contributes to anti-corruption programmes through the World Bank. Approximately one sixth of the Bank's lending goes to reform projects in the public sector. In almost all developing countries, the public sector is the main employer and spends the most money. To assess the effectiveness of development assistance, the Bank's Independent Evaluation Group carried out an evaluation of the Bank's lending activities and other support for public reform meas-

ures in the period from 1999 to 2006¹⁵. One of the areas evaluated was anti-corruption and transparency.

Increasing attention has been paid to anti-corruption and transparency in the Bank's Country Assistance Strategies and lending programmes since the end of the 1990s. The main findings of the evaluation were that the majority of borrowers (developing country governments) have become more transparent during the period, but they are not regarded as being less corrupt. Indirect measures to combat corruption and reduce opportunities for it, for example by simplifying procedures and regulations and reforming personnel policies, have had a certain amount of success. Direct measures, such as anti-corruption laws or commissions have proved to be far less effective, often because they did not have the necessary political and judicial support. Nevertheless, there are examples of success. In Bulgaria and the Indian state of Orissa, direct anti-corruption measures have led to public services becoming more efficient and accessible to users.

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 15 Public Sector Reform: What Works and Why?
 – An IEG Evaluation of World Bank Support, World Bank
 Independent Evaluation Group, IEG, 2008

SUMMARY

Improving economic governance takes time and is dependent on political will and on the government having sufficient power and legitimacy. Aid donors cannot create these conditions in a recipient country, but they can ensure that aid represents the right incentives. This is the basic thinking behind budget support as a form of development assistance. It is a form of assistance that makes it difficult to assess the direct results of aid.

Detailed criteria have been drawn up for assessing the quality of a country's financial management (PEFA). They give a good basis for assessing whether it is appropriate to use the recipient country's own systems or whether more direct control of aid is required. Some forms of budget support are also used in countries with weak economic governance, such as Afghanistan and Malawi. Studies show that even in these countries

there has been a gradual improvement in economic governance. Measurements show that Mozambique improved its financial management from 2004 to 2006, but it is difficult to assess the particular impacts of development assistance.

Budget support contributes to a country's national development plan. One way of assessing the results is to consider the degree to which the plan's targets for economic growth, the development of social services, governance and public financial management have been met. Norway provides budget support for Malawi, Mozambique, Tanzania, Zambia, Uganda and Nicaragua, and performance assessments in these countries exhibit wide variations. The achievement of goals is best in areas where the state plays a more direct role, as in social services. Economic growth can be influenced through the national budget to a far lesser degree.

DEVELOPING ECONOMIC INFRASTRUCTURE



Vietnam: Gas used for heating and the production of electricity, petrol and chemical fertilisers is processed at PetroVietnam's gas processing plant Dinh Co outside the oil town of Vung Tau.



Aid for infrastructure has moved from supporting specific investments towards focusing on management of natural resources. Norway's development assistance has made important contributions towards strengthening the management of energy resources, for example in Bhutan and Vietnam. It is not possible, however, to conclude that this assistance has brought results in the form of wider developmental impacts, apart from improved energy management. Results in the form of poverty reduction and economic development are most evident in local communities. Small-scale investments in roads and electricity in Vietnam and water supplies in rural areas in Tanzania are examples of measures that have had lasting economic and social impacts.

There is a clear link between economic development and infrastructure, in the sense that the countries with the most developed economies also have the best infrastructure. Infrastructure makes a positive contribution to economic development when it is used effectively for the production of goods and services and gives the population access to goods that increase its standard of living. Infrastructure boosts economic growth by reducing production costs and by facilitating new income opportunities and the use of new technology. Employment and deliveries in connection with the building of infrastructure can stimulate the economy, both locally and nationally.

Infrastructure is important for the physical environment, especially in highly populated areas, and can enhance living standards by reducing air, land and water pollution, improved communications and other benefits.

Infrastructure also has negative environmental impacts that must be taken into account in connection with planning, development, operation and possible closure.

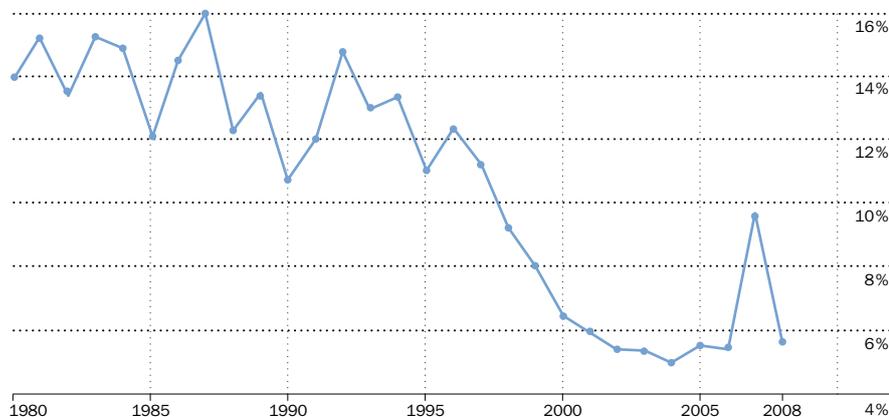
Political opinions differ about the degree to which infrastructure development should be left to the market or should be a public responsibility. The role of development assistance has typically shifted in tune with the prevailing opinion in development policy.

In the period up to the mid-1980s, when the role of government was centre stage in mainstream development policy, a large proportion of aid was used to finance public investments in transport, water and sanitation, electricity, telecommunications and irrigation. This was by and large successful in many countries in Asia and Latin America that had the financial and organisational capacity to run and maintain the infrastruc-



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FIGURE 4.1 Norwegian aid to build infrastructure has gradually been reduced compared to aid for other sectors



Aid for infrastructure as a percentage of total Norwegian aid*

*From 1980-1998 infrastructure was defined as a separate sector. Since 1999 the sector has comprised water supply and sanitation, transport and storage, communications and energy production and supply.

Source: Norad

ture. In many countries in Africa, there were problems with decaying infrastructure. With economic liberalism emerging during the 1980s, it was argued that it was better to leave many infrastructure investments to private actors. Aid for infrastructure therefore dropped dramatically in the 1990s, including from Norway.

The market did not respond as the liberalists had hoped, especially in Africa. The financial risk was too high for private investors and the pendulum currently is swinging back. Infrastructure development entails long-term investments in which it has been a continuous challenge to persuade the private sector to become involved. This particularly applies to the poorest countries in Africa and Asia, which are perceived as having a generally poor investment climate. The financial crisis has not made this situation any easier.

The World Bank, among others, advocates a dramatic increase in public investment in infrastructure. Development assistance can play several important roles in this effort. It can contribute long-term financing, which can also provide security for private investment. It can contribute by assuring the quality of projects, providing important support for the development of expertise and organisational capacity, and helping developing countries to gain access to the best possible technology.

IMPORTANT ELEMENTS OF NORWAY'S DEVELOPMENT ASSISTANCE

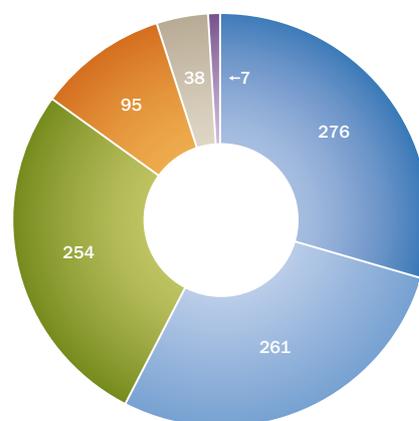
A declining proportion of Norway's grant aid has been spent on infrastructure development in the past twenty years. Figure 4.1 shows that aid for infrastructure as a percentage of total Norwegian assistance has been declining since the end of the 1980s, and particularly since the last half of the 1990s, with the exception of Norfund, which has invested considerable sums in the development of hydropower in developing countries.

This trend is due partly to the prioritising of health and education and partly to past experience of the ineffectiveness of infrastructure investments in promoting development, and corresponds with international trends in development assistance. For example, the World Bank made sharp cuts in its loans for the power sector from the mid-1990s and advocated restructuring and private investment in electricity generation and distribution, rather than continued focus on state power companies and meeting investment needs through government budgets.

Improving the investment climate

There has been a trend away from direct support for infrastructure development and towards stronger focus on improving the climate for this type of investment. Norway has been involved in strengthening the capacity

FIGURE 4.2 Energy policy and management accounted for one third of Norwegian energy aid in 2008



Breakdown of aid for the energy sector, by subcategory, NOK million

- Policy and management
- Hydropower plants
- Power transmission/distribution
- Power production
- Education and research
- Other renewable energy

Source: Norad

of important public agencies, improving legislation and regulations, and facilitating commercial investments.

Norway's experience and expertise in the fields of energy, roads and natural resource management are in demand in developing countries. Figure 4.2 shows that energy policy and energy management alone accounted for one third of total assistance for the energy sector in 2008.

This assistance includes consultancy services in connection with policy formulation, and the development of regulatory framework and administrations. Water resource planning and licence processing have been special areas of focus.

The transfer of competence takes place partly through institutional cooperation in which technical agencies in developing countries and in Norway collaborate. The cooperation has a long-term perspective, emphasising flexibility and transfer of appropriate technology, with focus on the challenges and needs of the recipient organisation, including general organisational development and the transfer of special expertise in selected areas.

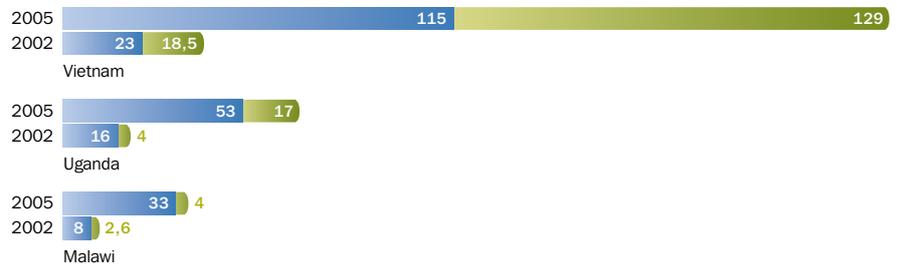
Telecommunications, airports and harbours have not received support from Norway for many years. Support for road construction is currently at a historically low level and the few bilateral projects that remain are being wound up. What is left is primarily support for energy production, in the form of hydro-power, oil and gas.



From the construction of the power plant in Bogoye, which was opened by Erik Solheim, Minister of International Development, in autumn 2009. Steps are built in the overflow weir by placing rocks in 'chicken wire'. The weir is important for leading water away when the flow of water in the channel is particularly strong. (Photo: Ken Opprann)

From a level of NOK 394 million in 2000, aid disbursements for the energy sector increased to NOK 697 million in 2008. In addition to this, through its joint venture with Statkraft, SN Power, Norfund has invested NOK 2.4 billion in the development of hydropower and wind power in developing countries since 2002. SN Power has used Norwegian expertise to rehabilitate, acquire or construct new hydropower plants. The company currently is involved in 14 operational power plants and ten projects under construction in six countries, with a total production capacity of 1,700 MW. SN Power's share of this capacity is equivalent to electricity for 7.1 million people. In recent years, its activities have been expanded to include a wind park. Norfund has also invested in a small hydropower plant in Bogoye, Uganda, with Trønderenergi and has agreed to invest in small-scale clean-energy projects.

FIGURE 4.3 Use of the Internet and cellular phones is growing rapidly, but varies significantly from country to country



Number of users per 1,000 inhabitants. The groups may overlap.

Cellular phone Internet

Source: UNDP, Human Development Report 2007/2008

CHARACTERISTICS OF GOOD RESULTS FROM AID

Building of infrastructure is costly and may be undertaken at the expense of other important societal needs. It is not the physical infrastructure itself that matters, but the developmental effects it generates. The proliferation and growing use of modern technology, such as cellular telephones and Internet services, are indicators of infrastructure development (see figure 4.3), but say little about the impact of development assistance.

The development impact of infrastructure projects can be assessed on the basis of three success criteria: local ability to exploit the potential of the infrastructure, the contributions that the infrastructure makes to creating sustainable institutions, and the stability and quality of the infrastructure.

It is important, when making investments in infrastructure, to give priority to areas that can exploit the economic potential inherent in the infrastructure. A framework must be put in place to ensure that resources are distributed to productive areas. In providing aid, Norway therefore seeks to promote an investment climate that ensures that public investments in infrastructure complement and mobilise private investments. The success of these efforts can be measured by means of a variety of economic indicators.

Aid for transfer of expertise and capacity-building must promote the development of sustainable institutions. There are many exam-

ples to show that aid-supported projects have proved to be unviable once the donor has withdrawn. Development assistance must therefore be grounded on strong recipient ownership, based on the priorities and administrative routines of the recipient country and adapted to the recipient's capacity to receive training and other assistance.

Infrastructure services must be produced cost-effectively and be of good quality and available on a stable basis.

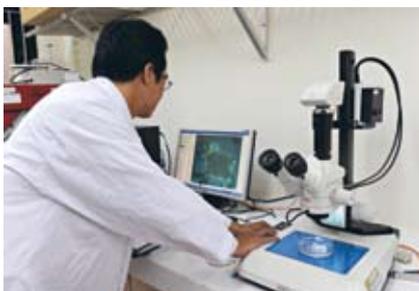
EXAMPLES OF RESULTS OF NORWEGIAN AID

More transparency in Vietnam's petroleum production

Vietnam is the third largest oil exporter in South-East Asia and petroleum production accounts for approximately 30 per cent of government revenues. As of January 2007, proven reserves totalled around 600 million barrels, equivalent to two years' oil production on the Norwegian continental shelf, with a sales value of around NOK 248 billion (USD 70 per barrel). Furthermore, relatively large areas have yet to be explored. The state oil company, PetroVietnam, has a dominant position and the administrative authority in almost every part of the production chain. The Vietnamese government wishes to modernise the country's legislation and has expressed a desire to place more responsibility in the hands of the relevant ministry.

Norway has helped to build up capacity in the Vietnam petroleum administration since 1977, with special emphasis on education

and training in the field of environment, health and safety (EHS) and the sound management of petroleum resources. Institutional cooperation agreements¹⁶ linked to specific project activities have been in progress since 1996. Work on developing a computer system for resource assessment, VITRA II (2002–2007), at a cost of NOK 9 million, has been completed and the system is in active use at PetroVietnam. The project to develop EHS management systems and guidelines (2001–2005) has been extended until 2010.



Samples from the ocean and the offshore seabed are analysed at PetroVietnam's Research and Development Institute for Petroleum Safety and Environment. (Photo: Ken Opprann)

The VITRA computer program is used in strategic planning for the energy sector. Oil companies operating in Vietnam must report reservoir data annually through this computerised system. This has provided a better overview of the resources available in the various fields, and makes it possible to plan future energy supplies and requirements. EHS systems and guidelines are being drawn up and have been introduced.

Economic development in central Vietnam

Trieu Phong is a district in central Vietnam. The area was devastated during the Vietnam War and the district is one of the poorest in Vietnam. Large areas along the coast were largely unutilised and productivity in these areas was low due to the sandy soil, erosion and flood problems. In 1998, the local authorities drew up a petition to the central government, requesting international assist-

16 The resource mapping project, the Vietnam Total Resource Assessment (VITRA), was carried out in two phases from 1996 to 2008. The EHS project, Development of Management Systems on Safety and Pollution Control in the Vietnamese Petroleum Industry, was initiated in 1997 with phases I and II from 1997 to 2006 and phase III from 2008–2010.

ance to develop the economy and increase settlement in the coastal zone. Norway was eventually contacted and agreed to provide funding for a development programme aimed at improving standards of living in seven coastal communes in the district.

The programme was implemented from 2000 to 2007, with a total budget of NOK 45 million. Activities involved several areas: development of aquaculture and animal husbandry, reclamation and improvement of agricultural land, including draining the land and planting trees, development of local roads and rural electrification. Around NOK 27 million was provided for the last item.

A final evaluation carried out in 2007¹⁷ concluded that the programme has contributed to a dramatic transformation of the area's ecology, from white sand and barren soil to a fertile farmland area with green fields, trees and roads:

>> Through the land reclamation programme, 443 poor families have been relocated to new arable areas and begun the process of gradually improving their living conditions.

>> Drainage canals and embankments have been built, thereby protecting 30,000 people against floods.

>> Trees have been planted, providing 800 families with wood and protecting 40,000 people against drifting sands.

>> Soil improvement projects have benefited 1,000 farm households comprising a total of 3,000 people.

>> Road construction projects have helped to give around 40,000 people access to schools and markets for agricultural produce all year round.

>> As a result of the rural electrification component, 4,000 clients – households, institutions, small companies and shops – now have access to modern power supplies.

A large number of households other than the new settlers have enjoyed the benefits of

17 Final Evaluation of SRV 0036 – Rural Development in Coastal Areas of Trieu Phong District, Quang Tri Province. Norad Collated Reviews 31/2007. PEM CONSULT

the environmental and infrastructure improvements, and the programme is assessed as having brought a general improvement in the economy and welfare of the seven communes. The infrastructure components of the programme have been an important factor. Previously, all transport to these communes took place on foot. The programme financed around 50 km of roads, thereby ensuring access to reasonably priced commodities from outside the area, making it possible to bring local products to market and giving the population easier access to public services. The development of the electricity grid was crucial to the development of the agricultural, aquaculture and coastal fishing industries, while also benefiting schools and health centres.



The construction of aquaculture ponds is one of the measures initiated in the Trieu Phong District of Central Vietnam to provide people with a livelihood. (Photo: Bjørnulf Remme)

The programme was run by the district authorities. The evaluation underscores that this was a critical success factor for both the implementation of the infrastructure components and for future maintenance. It meant that the organisations already in charge were involved, national standards were adapted, and relevant stakeholders were involved.

Securing water supplies in rural districts in Kenya and Tanzania has brought lasting results

Kenya and Tanzania were main recipients of Norwegian aid for drinking water supplies from the late 1970s to the mid-1990s. By then, a general perception had evolved that this type of project assistance was ineffective, and several projects were terminated relatively quickly. Norway's assistance helped to provide water for 50 small towns in Kenya, and a total of almost 3,000 wells had been installed in the Rukwa and Kigoma re-

gions of Tanzania. In 2007 and 2008, two studies were carried out of this aid involvement. The first¹⁸ examined what was still functioning of the facilities that had originally been built with Norwegian funds, while the second¹⁹ considered the social and economic impacts of the totality of Norwegian assistance provided to the Rukwa region, which covered several sectors.

The studies do not consider the cost effectiveness of the aid provided, but explode the myth that support for water supplies was a failure. In Tanzania, 60–70 per cent of the wells financed by Norway are still supplying the population with clean water. Similarly in Kenya, the study found that 90 per cent of the installations are still being used.

The quality of the wells and installations varies and there is an acute need for maintenance, but their lifetime has been considerably longer than might normally be expected. In rural areas of Tanzania, boreholes with hand pumps have held up the longest. The wells have largely been maintained by the villagers themselves, with limited help from the local authorities. The system of village water committees and village water funds, which Norway helped to establish, seems to ensure a minimum of maintenance. However, the villagers are unable to finance the costs of major repairs and investments in new equipment.

The second study shows that public health in Rukwa improved significantly during the period when Norwegian assistance was provided. Child mortality fell by 20 per cent from 1985 to 1995. The access to cleaner water was undoubtedly an important reason for this improvement. At the same time, the health sector was strengthened – vaccination coverage tripled in the same period – and people's diet improved and became more varied as a result of agricultural changes. Norway also provided aid in these sectors.

18 Skaiaa, O (2007). *Fiction, Facts & Future Norad's Assistance to Water Supply and Sanitation Development in Tanzania and Kenya during the 70s, 80s and 90s*. Tranor International Ltd.

19 Jerve, Alf Morten and E.J.K. Ntemi (2009). *Rukwa Ruka. The attempt of a foreign donor to uplift a neglected region: a study of the impact of Norwegian aid to Rukwa Region, Tanzania*. CMI Report R 2009:12. Bergen: Chr. Michelsen Institute.

What happened after Norway withdrew from Rukwa is another indication that the assistance had been playing a significant role, even though its sustainability was disappointing. After 1995, there was a dramatic reduction in public investments. No public funding was received from either the government or other donors. Statistics on living conditions in the region show that the improvements in standards of health stagnated and that some indicators are in fact showing a certain decline, e.g. the percentage of women who go to a public health clinic to give birth. Poverty in Rukwa does not seem to have been reduced, despite higher agricultural production. People reported that they sell a bag of maize for less today than they did 10 years ago. Purchasing power has dropped by one third.

Approximately 40 per cent of households in Rukwa have access to clean water today, compared to 72 per cent in 1995. The decline is primarily due to the fact that the population has almost doubled in the last two decades. The situation would have been even worse had it not been for the fact that so many of the Norwegian-financed installations are still working.

Better management of Bhutan's hydropower

Bhutan has a considerable hydropower potential from its rivers, glaciers and snow-capped mountains. Today, only five per cent of this potential is exploited. The development of the energy sector is essential to economic growth in Bhutan, with India as a virtually insatiable energy market. In March 2009, Bhutan signed an agreement with India to build and export 10,000 MW of hydropower by 2020, which is equivalent to around 1/3 of the country's hydropower potential.

Norway and Bhutan have been engaged in cooperation in the energy sector for over 20 years. Since 2001, some NOK 35 million has been provided for capacity-building and institutional cooperation. Exploitation of the hydropower potential requires extensive infrastructure and specialised expertise in many fields. Norway's know-how and experience in hydropower and rock technology are well adapted to meet the needs in Bhutan. In the past eight years, cooperation has primarily focused on building up capacity in the sec-

tor to better enable Bhutan to manage its own natural resources.

An external review of cooperation with Norway was undertaken in autumn 2007²⁰. With Norwegian assistance Bhutan has adopted an Electricity Act. The Act has resulted in the establishment of an independent regulatory authority and a new licencing and tariff system for the electricity sector. Under the Act, the official oversight function must be separate from operating activities in the energy sector, and a state-owned power company was established in 2008 which operates and maintains existing hydropower plants and initiates new projects.

Norway has also helped Bhutan to establish a database of hydrological data and to update national plans for prioritising the development of its hydropower resources. The country is thus better equipped to manage its energy resources and is prepared to handle a potentially large number of applications to develop hydropower projects.

Successful establishment of a power pool in southern Africa – despite limited sales

A number of countries in southern Africa have joined forces to coordinate regional electricity supplies through the Southern African Power Pool (SAPP). The energy crisis in the region has underscored the need for closer cooperation across national borders. The purpose of this type of power exchange has therefore been to develop a competitive power market by promoting trade in electricity between the countries.

In the period 2003–2007 Norway contributed NOK 35 million. Norway's support has been aimed at easing the transition from a cooperative trade organisation that facilitates the exchange of power through bilateral agreements, to a competition-based power pool. According to an external review²¹ of the project, power is now traded in a competitive market. The goal of developing a modern

20 Review of the Norwegian Support to Institutional Strengthening of the Energy Sector (Phase I & II) and Preventive Measures for Landslide Hazard in the Kingdom of Bhutan (Phase I & II), Final Report November 2007 by Norplan on commission by Norad.

21 End-Term Review of SAPP Support final report 19.06.2008. NewEnergy Consulting on commission by Norad.

market for buying and selling electricity has been achieved, and thereby ensuring a continuous supply of electric power, making it easier to mitigate power shortages.

One of the project's success criteria was to increase power trading. However, trading declined in the period in question, from over 750 GWh in 2002 to approximately 150 GWh in 2007. One of the reasons for the decline is that the region has gone from a surplus of power to a deficit. As a result, countries have been more concerned with meeting their own needs than with selling any surplus they might have to their neighbours through the power pool. Another factor is the inadequacy of the transmission grid system. It has also been a problem that market actors have not been provided reliable information on electricity supplies.

Nevertheless, the aid is considered to have been successful. The South African Power Pool appears to have become a viable institution. The transfer of expertise is regarded as successful. It is important that the countries planned the work themselves before the donors became involved, and that there has been a political will to establish regional power cooperation.

Rural electrification provides households with incomes, but does not reach the poorest people

The World Bank began its lending operations in the field of infrastructure investments early, providing funding for the first energy project in 1948. The Bank's Independent Evaluation Group carried out an evaluation²² of the long-term effects of support for rural electrification by analysing 120 projects that had received funding since 1980.

The goals of electrification projects have differed. Three-fourths of the projects were aimed at improving access to electricity and promoting institutional development. Poverty reduction or gender related issues were seldom mentioned as explicit goals. The evaluation concluded that the projects financed by the World Bank had succeeded in creating the physical infrastructure required for rural electrification. Various technical

22 "The Welfare Impact of Rural Electrification: A Reassessment of the Costs and Benefits. An IEG Impact Evaluation". 2008, World Bank.



INCOME DOUBLED THANKS TO LANTERNS

Rajni Yadav's face shines with new self-confidence. Her extended family of 10 persons have struggled for years to survive on their 20-hectare plot of land. The "Lighting a Billion Lives" campaign has changed her life because her village, Jhamvu Vas, in India now has solar-powered lanterns.

"In our village of 400 homes, we used to have less than four hours of electricity per day," recounts Yadav. "The lanterns have given us new hope. They cost just 3 rupees per day to rent and light up the houses for up to eight hours, whereas candles costing 5 rupees don't even give us an hour of light. As children we always fought over the candles. Poor light from candles is no longer an excuse for not doing homework," says Yadav.

"Now I can teach three shifts of classes and study on my own in the evening. The number of students that I teach has tripled, to as many as 30. In just seven months, I have doubled my income from private tutoring to 8,000 rupees. I am also in the last year of upper secondary school and I can now afford to pay for my own schooling. I can also lend money to my parents, and dream of becoming an engineer. This wasn't possible before because I had to do my homework in the daylight hours right after school," explains Yadav.

"Thanks to the lanterns, ten women in our village are now able to teach pupils or take on tailoring jobs in the evenings to support their families. Moreover, my father can visit his field more often before sunrise." (Text and photo: Deepak Parvatiyar)

problems that often entailed significant losses were reported.

The World Bank's rural electrification projects have built over 600,000 km of new power lines and installed more than 500 transformer stations, providing electricity to more than 130,000 villages and reaching almost 20 million households. Coverage in Indonesia, for instance, increased from 33 per cent in 1991 to 85 per cent in 2003, with about 45 per cent of the additional connections having been financed by the World Bank.

There has been less success in achieving goals in the field of institutional development. Problems often arise due to the inadequate financial viability of the entities responsible for distributing electricity. The evaluation also points to the clear tendency towards rural electrification projects having favoured larger villages. In these villages, the poor usually cannot afford to connect to the power grid.

The electricity that has been made available is mainly used for household lighting. Even if rural electrification cannot be said to promote

industrial growth, it does spur the establishment of home businesses. The evaluation shows that the number of such businesses has increased and they operate for more hours than before. This has a positive impact on household incomes, although the effect is less than expected. This applies in particular when the projects have targeted more productive use of electricity. Businesses also tend to continue to use generators because the power supply is still not reliable enough. For example, textile companies in Bangladesh and Sri Lanka have not taken advantage of access to electricity through the grid.

According to the evaluation, one of the lessons learned is that the World Bank has made a significant contribution to rural electrification in places where it has been involved over a long period of time.

SN Power – Norfund's biggest investment

In 2002 Norfund, in partnership with Statkraft, established the energy company Statkraft Norfund Power Invest (SN Power). The company's strategy is to engage in profitable investments in the rehabilitation, construction and acquisition of hydropower plants in low-income countries. In 2008, SN Power made its first investment in wind power by building the Totoral Wind Farm in Chile, which will have a capacity of 46 MW. SN Power is Norfund's largest investment. The company is growing rapidly and plays a significant role as energy supplier in a number of low-income countries.

The restructuring of SN Power in 2008 gave Norfund the opportunity to redistribute capital from SN Power's global portfolio to countries that are more closely aligned with Norfund's mandate and strategy, and to utilise SN Power's expertise in hydropower projects in developing countries with a view to making new investments in Africa and Central America. The restructuring also gives SN Power a solid capital base that will enable it to continue to focus on investments in renewable energy in the future.

Hydropower investments constitute significant transfers of technology from Norway to developing countries. Many of the plants that SN Power has acquired have had technical problems and have therefore been under-

utilised. Thanks to Norwegian expertise, SN Power has been able to improve profitability and solve the technical challenges faced by the plants. In the Philippines, SN Power, in a 50/50 partnership with Aboitiz Equity Ventures, has bought the Binga and Ambuklao power plants. The dams and power stations had recently been flooded following an earthquake and subsequent landslide, and were therefore thought to be beyond repair. With the help of Norwegian experts, the plants are now being rehabilitated.

Results for SN Power:

>> **Power production:** The capacity of operational plants and assets under construction totals around 1000 MW, equivalent to the consumption of 11.5 million people in the countries concerned at the end of 2008. SN Power's ownership interest is equivalent to power production for 7.1 million people. In addition to 14 operational power plants, SN Power owns ten projects under construction or at an advanced stage of planning.

>> **Financial results:** The company's turnover totalled NOK 1 billion in 2008, and profit amounted to NOK 338 million.

>> **CO₂-reduction:** SN Power's three CDM projects²³ have the potential to supply carbon credits (Certified Emission Reductions - CERs) equivalent to 1.35 million tonnes of CO₂ per year. SN Power's share of this amount is equivalent to 850,000 tonnes. The total annual reduction of CO₂ emissions is equivalent to CERs for more than two million tonnes of CO₂.

Expanding the electricity grid in Malawi has had little impact

The World Bank's Power V project for Malawi identified and gave priority to investments in the distribution grid in and around the capital, Lilongwe. The grid was underdimensioned and outdated, and around 21,000 subscribers, including 18,000 households as well as administrative buildings, industry and many other enterprises, had unreliable power supplies. The fact that the grid was overloaded

also prevented the expansion of coverage to provide power to new subscribers.

Between 1998 and 2003, Norway contributed a total of around NOK 95 million for investments in the electric power grid in Malawi. The funds were spent on upgrading and expanding a total of 15 transformer stations in and around Lilongwe, with priority being given to areas with the most pressing needs. This support was aimed at promoting economic and social development by improving the supply of electricity.

This example shows the problems related to result reporting in many projects. There is a general lack of documentation. The Malawi authorities have not submitted a final report as stipulated in the agreement signed in 2001, nor has the support provided been reviewed either during or after the project. Norad's monitoring and completion of the project were based on progress reports prepared by Norplan, which was engaged by Norad as an independent advisor for the Malawi state power company, ESCOM. The reports focus solely on the technical aspects, documenting that the equipment has been supplied and installed. The information on efforts to rationalise ESCOM and introduce cost-based tariffs is deficient.

The cost-effectiveness of the project has probably been low. The funding granted in 2001 was part of a parallel financing scheme that was tied to Norwegian suppliers, but there was no competitive tendering for deliveries to the project. No analysis has been carried out of goal achievement in terms of economic and social development.

Better roads and access to electricity are not enough to alleviate poverty

In order to gain a better understanding of the role played by transport and energy infrastructure in reducing poverty, the Asian Development Bank has reviewed²⁴ studies carried out in China, India and Thailand.

The report concludes that investments in transport and energy infrastructure have benefited both the poor and those who are not poor. In addition to promoting economic op-

²³ CDM= Clean Development Mechanism, one of three international, flexible, market-based mechanisms designed to help countries meet their CO₂ emission-limitation commitments under the 2005 Kyoto Protocol.

²⁴ "Assessing the Impact of Transport and Energy Infrastructure on Poverty Reduction". 2005, Asian Development Bank.

portunities, investments in transport and energy are in themselves important. Investments in transport have proved to have the greatest impact on income levels because they make it easier for poor people to seek employment in sectors other than agriculture.

Another conclusion is that economic infrastructure must be combined with other measures in order to alleviate poverty effectively. For instance, improved transport facilities and high-quality health services may be of greater use to poor people. Improvements in the population's health and education are key welfare-related aspects that also help to increase production when good transport and energy facilities are available.

A conclusion reached in all the country studies is that improved roads and access to electricity translate into time savings that are of great significance for poor people. For the poorest of the poor, such improvements may have a negative impact, as they are unable to participate in the greater competition generated by the improvements.

Norwegian trust fund for infrastructure

Through the World Bank, Norway has established a trust fund²⁵ for the private sector and infrastructure which provides grants for activities aimed at integrating good governance and improving the investment climate in the field of infrastructure for poor people and to promote systematic cooperation on governance issues in the petroleum sector. The fund primarily targets ongoing projects, and is intended to promote collaboration across the various units of the World Bank. In the period 2002–2008, the fund received around NOK 400 million from Norway.

Although many of the infrastructure projects were delayed for various reasons, some preliminary results are referred to in the fund's annual report for 2008. For example, a review of the World Bank's portfolio was carried out to identify projects that can be better adapted to climate change. In addition, work began on developing tools for these projects based on methods developed in connection with greenhouse effects. Another example is the Lighting Africa web portal,

which targets small and medium-sized companies in the lighting sector. Since the portal was launched in September 2007 and up to May 2008, 627 organisations and 1,707 members had registered. One of the most popular features of the portal is a forum where members can find ideas for their businesses, whether they are buyers looking for products, companies that need partners, or product developers selling technical solutions. In this way, companies can team up to help reduce energy consumption in the private sector.

Control of overloaded vehicles on Zambian roads creates savings

Norway has provided support for the road sector in Zambia for many years. This support has consisted of funding for small road development projects, the construction of roads in national parks, advisory services related to the road laboratory, and expert assistance for the Zambian Ministry of Works and Supply.

Overloaded heavy vehicles have posed a problem entailing substantial costs for repair and maintenance of the country's roads. With support totalling NOK 30 million from Norway and EUR 2.5 million from the EU, the Zambian road authorities have implemented a programme to improve axle load control. This programme is the biggest individual undertaking supported by Norway in Zambia's road sector.

Norway's support for the programme was terminated in 2008. An end review²⁶ recently carried out concluded that the programme has helped to ensure better control of vehicle overloading and reduce corruption at weighing stations in Zambia.

The Norwegian Public Roads Administration, which has acted as expert advisor to the Zambian authorities during the implementation of this programme, has calculated that the measures carried out save the authorities NOK 320 million in maintenance costs over a 15-year period by reducing wear and tear on roads. Other beneficial effects of the programme include the increased expertise of weighing station staff, greater awareness of corruption and fair, effective competition.

The weighing stations currently in operation are open 24 hours a day and are themselves a source of income, depending on how many people follow the rules. The sustainability of the programme is contingent on the authorities continuing to maintain strict control and on the weighing stations being granted the necessary funding.

Dubious sustainability in the infrastructure sector in Afghanistan

UNDP's country programme in Afghanistan is the largest UNDP programme in Asia, and has provided support for the international community's efforts to establish peace and rebuild the country. Parts of the programme have targeted the development of remote areas of Afghanistan. According to one evaluation²⁷, the programme can demonstrate that it has made significant contributions in the form of physical structures for local authorities, and a variety of infrastructure projects have been carried out. The evaluation points to a total of 528 small-scale infrastructure projects that have now been completed, such as roads, schools and hospitals.

For the time being, there have been no reports on the results of these projects in the form of increased production or productivity, and there is little focus on the need for maintenance. The recipients report problems in terms of both the design of the programme and the quality of materials and structures. The evaluation points out that the Afghan government has shown a reluctance to decentralise management of the programme, which has largely been organised from Kabul. This top-down approach without proper involvement of the intended beneficiaries poses a threat to the sustainability of the projects.

²⁵ The Norwegian Trust Fund for Private Sector and Infrastructure

²⁶ End Review of Zambia Axle Load Control Programme, prepared by GICON AS, Norway, in association with InfraAfrica (Pty) Ltd., Botswana, September 2009.

²⁷ Assessment of Development Results: Islamic Republic of Afghanistan, Evaluation of UNDP Contribution, UNDP 2009

SUMMARY

Norwegian development assistance for economic infrastructure was substantially reduced from the mid-1990s and for the next ten years. This applied in particular to funding for specific development projects. At the same time, the focus shifted towards improving the climate for this type of investment, particularly in the field of natural resource management. In the past few years, infrastructure assistance has again increased, especially due to petroleum and hydropower projects. Norfund has played a key role in the latter sector.

The results of this assistance can be assessed on the basis of how the infrastructure potential has been exploited in economic terms, whether new projects targeting improvement of the framework conditions are sustainable, and whether there is now higher quality and more stability in services such as energy supplies and transport.

With regard to support for improving the framework conditions, Norway has been instrumental in ensuring that Vietnam has an improved overview of and greater transparency in relation to the country's petroleum reserves. Bhutan has adopted new electricity legislation and established a more accurate inventory of its hydropower resources. A power pool has been established in southern Africa, even if trading is still limited. In Zambia, the road authorities have put in place more effective measures to check

the weight of heavy vehicles, thereby achieving substantial savings on the cost of maintaining the country's roads.

Investments in hydropower through Norfund (SN Power) have helped to boost power production. Norway has contributed towards improving the electricity grid in Malawi.

There is a lack of studies that assess the economic impact of this type of investment. An evaluation of rural electrification financed by the World Bank concluded that the objectives related to physical development have largely been achieved. While this has resulted in increased economic activity, it has had little effect for the poorest members of the population.

Investments in local infrastructure in areas of widespread poverty have brought improvements in standards of living. The support provided by Norway for many years to secure supplies of drinking water in Kenya and Tanzania contributed to a marked improvement in public health. The development of rural roads, drainage projects and aquaculture has raised living standards for poor farmers in central Vietnam.

This chapter shows that many roads can be taken to reach a goal, but that it takes time before the impact of infrastructure on economic development can be assessed.



PROMOTING PRIVATE SECTOR DEVELOPMENT

Thi Kim Chuc Nguyen has received microcredit loans from the Women's Union, which works in partnership with the Mission Alliance to provide small loans to women in the districts around the Mekong delta in Vietnam. Here she is braiding seagrass to make a set of baskets.



Aid for private sector development is increasingly focused on improving the conditions for economic development. As measured by international indices, this approach has in many countries brought about an improved operating environment for private companies. Many companies involved in development cooperation have succeeded in establishing profitable production facilities in poor countries. The information available on results is insufficient and there is too little knowledge of the broader impacts. Amongst Norwegian aid agencies, Norfund is most directly involved in markets in developing countries. Norfund is a Norwegian government fund for investment in profitable companies in developing countries. It operated at a profit in 2008.

In the 1980s there was growing recognition that parastatal companies in many developing countries was characterised by inefficiency and stagnation. As a result, greater emphasis was placed on freer markets and less government control. More open borders and new means of communication facilitated the movement of capital, ideas, people and goods. Creating equal market opportunities for all became an important goal, and in many countries this meant reducing regulation and bureaucracy. It also entailed strengthening the parts of the public sector that are crucial to a well-functioning market, such as the legal system, the licencing system and the tax system.

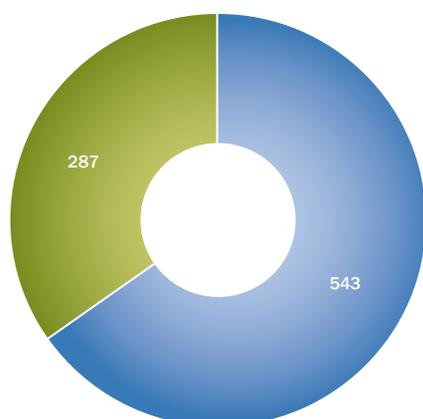
In development aid, this resulted in a greater emphasis on value creation and facilitation of private business. In the international community, it became common in the mid-

1990s to refer to this type of assistance as private sector development.

There have always been tensions at the interface between aid and business. There are obvious dilemmas inherent in public aid agencies helping owners of private businesses. Norwegian aid practitioners have traditionally been skeptical about the profit mentality on which private companies are based. Today there is wider acceptance for the notion of profit as a driver of development, inspired by the far-reaching, successful economic changes in China and India that have provided employment and incomes for hundreds of millions of poor people. Grameen Bank and micro-financing, which have so indisputably enabled poor people to earn money, have also been instrumental in promoting such acceptance.



FIGURE 5.1 Support through Norfund accounts for almost two thirds of aid for private sector development



Aid for private sector development 2008, NOK million

■ Norfund

■ Other assistance for private sector development

Source: Norad

IMPORTANT ELEMENTS OF NORWAY'S DEVELOPMENT ASSISTANCE

It is common to differentiate between company-related assistance and assistance aimed at improving the enabling environment for private business and industry. Norway provides both types of support, but is increasingly concentrating on business environment factors. This is also the trend internationally. Apart from the support channelled through Norfund, assistance provided directly to individual companies now constitutes only a small part of Norway's efforts to promote private sector development.

It is difficult to present an overall picture of all the assistance for private sector development. The support channelled directly through Norad's industrial and commercial financing facilities is provided under separate budget items and can be seen in the statistics. Much of the support is also channelled through non-governmental and multilateral organisations. A great deal of this assistance is combined with support for purposes other than private sector development, and is impossible to single out in the statistics. Support is also provided under headings other than private sector development, such as good governance, which can have significant impacts on the business enabling environment.

TABLE 5.1 Bilateral assistance for private sector development (except Norfund), 2005–2008 (NOK 1000)

Areas	2005	2006	2007	2008
Feasibility studies and projects	25 299	24 042	21 744	18 535
Training and human resource development	6 186	8 378	8 381	6 590
Trade-promoting measures	18 536	22 710	41 043	46 096
Mixed credits	75 124	69 965	46 505	77 200
Institutional cooperation	31 590	57 368	58 661	103 906
Other	99 305	28 370	24 891	34 928
TOTAL	256 040	210 832	201 226	287 255

The most common channel for company-related assistance is bilateral assistance, which also includes investment activities through Norfund. Support for the private sector provided directly under the private sector chapter of the development assistance budget is broken down as shown in Figure 5.1. Support provided through Norfund accounts for two-thirds of the support granted directly for private sector development.

The primary goal for business-oriented assistance has been virtually the same for many years: *“support for projects that help to strengthen profitable production, whether in primary industries, service industries or the industrial sector.”*²⁸

While the goals have long remained unchanged, aid modalities have changed in step with developments in the international debate on this issue. Assistance for private sector development is now focused to a greater degree on the private part of the business sector. Policy instruments have become increasingly specialised and professionalised, there has been a tendency towards untying aid, and various models for private-public partnerships have emerged.

In the course of the 1990s, investments were regarded as increasingly important. For instance, the Expert Commission on North-South and Aid Policies²⁹ underscored the need for effective investment support schemes in development assistance. In its report, the Com-

²⁸ Definition excerpted from the 1999 Strategy for Norwegian Support for Private Sector Development in Developing Countries

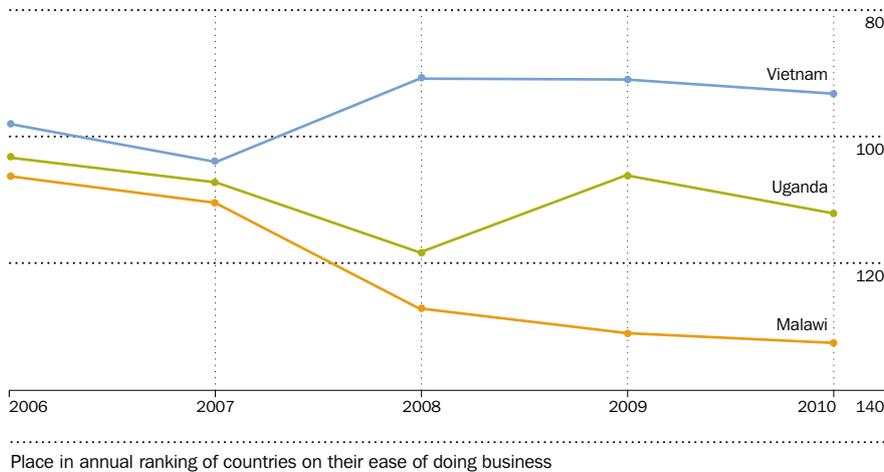
²⁹ NOU 1995:5

mission proposed to establish a government capital grant scheme. This laid the foundation for Norfund, which began operating in 1997. All schemes related to investments on a commercial basis have been grouped under Norfund. Norad is responsible for grant-financed measures designed to improve the business environment for private sector development and is in charge of the grant schemes for Norwegian companies. Norwegian embassies are responsible for support for economic development in individual countries.

The concept of viable companies includes an emphasis on both the financial aspect of business operations and how companies fulfil their environmental and climate, ethical and social responsibilities. This is in keeping with the growing international awareness that economic growth necessitates a focus on both quality and quantity.

From the very outset in Norwegian development assistance, there has been a desire to utilise the expertise and capital of Norwegian business and industry. Consequently, the industrial and commercial financing facilities and much of the purchasing for Norwegian-funded projects were conditional on the participation of Norwegian companies. In line with the recommendations of the OECD/DAC and others, all assistance targeting the private sector was untied in principle from 2002 onwards. This meant that major export support schemes were phased out, giving rise to protests from Norwegian industrial enterprises.

In partnership with Norwegian business and industry, there is now more emphasis on utilising private sector know-how in sectors

FIGURE 5.2 Doing business in Malawi appears to be growing more difficult

Source: World Bank, Doing Business in 2010

where Norway is considered to have special expertise, such as petroleum, energy and fisheries. Much of what is now being done to promote private sector development takes place in these sectors. Focus has shifted away from general efforts aimed at all sectors towards more targeted efforts in sectors such as energy and fishery. Furthermore, good governance is a main precondition for a good, predictable environment for private sector development.

The strong increase in institutional cooperation from 2007 to 2008 is the result of a deliberate emphasis on entering into such partnerships with a view to promoting private sector development. Several new institutional cooperation programmes were entered into in the fishery sector, a major programme was established to improve energy efficiency in China, SINTEF is a partner in institutional cooperation with Mongolia and Nepal, the Norwegian Microfinance Initiative has received funding in connection with the company's establishment, the Confederation of Norwegian Enterprise has been granted more funds to enable it to continue and expand its aid-oriented activities, and the ILO has received support for its women's entrepreneurship development programmes.

CHARACTERISTICS OF GOOD RESULTS FROM AID

The most obvious success criterion for direct assistance to an enterprise is whether the enterprise that has received support becomes

financially sustainable and creates value. Preferably, the enterprise should grow and be operated in accordance with environmental and ethical principles. From a development perspective, the enterprise should also employ or serve poorer population groups. Measuring results in private sector development has long posed a challenge, and the Donor Committee for Enterprise Development (DCED) has proposed the following universal impact indicators³⁰:

- >> **Scale:** Number of target enterprises who received a financial benefit as a result of the project/programme.
- >> **Net income:** Additional net income (additional sale minus additional costs) accrued to targeted enterprises as a result of the project/programme.
- >> **Net additional jobs created:** Net additional, full time equivalent jobs created in targeted enterprises as a result of the project/programme.

If these indicators are to be used, procedures for data collection must be incorporated into the programme from the very start. Since these are new indicators, hardly any Norwegian programmes currently report on the basis of these criteria. Detailed results must be reported in a cost-efficient way, and this is hardly possible in smaller schemes with

³⁰ "Quantifying Achievements in Private Sector Development", DCED, April 2009

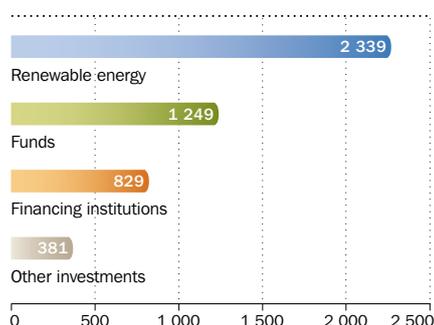
low grant amounts, such as support for feasibility studies. Little is known about the impacts of direct support schemes, and Norad has initiated an evaluation of such impacts, the results of which are expected to be presented in early 2010.

Much of the private sector debate is now focused on promoting a business enabling environment. The primary objective is to ensure that markets function better for all concerned, by reducing the barriers preventing enterprises from participating in the market. Measures include:

- >> eliminating unnecessary bureaucracy
- >> improving access to production resources such as financing
- >> facilitating development, for example by building infrastructure
- >> regulating the market

The poor must be included in national and global markets. At present, most poor people have enjoyed few benefits from globalisation. Experience from China and Vietnam show the potential offered by participation in international trade. Vietnam's entry on the coffee and rice markets in the 1990s, for example, brought almost immediate effects for the small farmers involved.

Support for improving the business enabling environment focuses on making markets more accessible and equitable. Increased economic activity in a sector where Norway provides assistance to promote an enabling environment may be an indicator that the assistance is producing results. It is not possible to ascribe improvements entirely to the efforts that have been made to create a favourable business climate. The increase in activity could also be explained by better economic conditions. One method of measuring changes in the investment climate is to look at the numerous indices that have been designed to measure a country's competitiveness and how enterprise and investment-friendly countries are. The best known index is the World Bank's Doing Business, which indicates the ease of doing business in various countries. Figure 5.2 shows the ranking of Vietnam, Uganda and Malawi in the past few years. While Malawi may also have improved its business enabling environment, according to this index other countries have done more.

FIGURE 5.3 Norfund's largest area of investment is renewable energy

Total portfolio 2008 by investment area, including SN Power, NOK million

Source: Norfund

Doing Business is based on a set of ten main indicators. These measure such factors as how hard it is to start a business, how long it takes to obtain a permit to build a commercial building, how easy it is to obtain a loan, the extent of the legal protection of investments, how easy it is to export goods, etc.

In the case of the three countries in question, for instance, the cost of starting a business as a percentage of income per capita has changed as follows³¹:

TABLE 5.2 Cost of starting a business

	2007	2008	2009
Malawi	189%	126%	108%
Uganda	92%	101%	84%
Vietnam	20%	17%	13%

% of per capita income

There are also substantial differences in export costs:

TABLE 5.3 Export costs

	2007	2008	2009
Malawi	1 623	1 621	1 713
Uganda	2 940	3 090	3 190
Vietnam	669	734	756

US\$ per container

³¹ The figures have been excerpted from the report *Doing Business* 2010

Export costs include all charges and payments necessary from the time a container leaves the enterprise to the time it is finally loaded on a ship. Uganda has a low score, partly due to the long transport distance to a port. This illustrates one of the competitive constraints that hamper several African countries in the global market.

The business enabling environment has a crucial impact on trade. A study carried out in 2006³² concluded that for each day export is delayed, the country's export trade is reduced by one per cent. For instance, it takes 71 days from the time an export container leaves the factory in Ouagadougou until all the administrative procedures have been completed and the container is ready for shipment. The study maintains that if Burkina Faso had reduced this time to 27 days, which is the average for the countries covered by the study, its export volume would be 45 per cent higher. Furthermore, such long waiting times obviously make it impossible to export perishable goods.

EXAMPLES OF RESULTS OF NORWEGIAN AID

Norfund: Investments that have increased employment and tax revenues

Norfund is the Norwegian development agency that is most directly involved in markets in developing countries. Norfund has now operated for over ten years. The fund invests, often in partnership with others, in individual enterprises in which Norfund can exercise active ownership. Direct investments in renewable energy are mainly organised through SN Power³³, which is a joint venture between Statkraft and Norfund. Norfund also works indirectly through investment funds and financing institutions, in addition to being a major investor in various micro-financing institutions, including the Norwegian Micro-finance Initiative (NMI).

Norfund has been criticised for not investing enough in the least developed countries (LDCs), but the percentage of its investments in this group of countries has increased in the past year and is now around 40 per cent.

³² Djankov, Freund, Pham "Trading on Time", World Bank/IFC, 2007.

³³ Described in greater detail in Chapter 4

Several of the funds in which Norfund has invested are located in what the Norwegian Government Commission on Capital Flight from Poor Countries characterises as tax havens. Because Norfund is a small investor in many funds and because it could incur significant losses if it were to withdraw immediately, the Commission does not recommend that Norfund withdraw from the investment funds in which it currently has investments. On the other hand, it is the opinion of the Commission that "... Norfund, in the course of a three-year period after the Commission's proposals become effective, should gradually reduce any new investments through tax havens to zero."

There has been no evaluation of Norfund since 2002.³⁴ From a weak, but positive, return in the period from 2002 to 2005, the return on investments has increased in the past few years reaching 21 per cent in 2008. This was equivalent to a profit of NOK 233 million before currency gains.³⁵ Norfund has been less hard hit by the financial crisis than many other investment funds. One of the reasons is that the financial crisis had not yet affected many developing countries, because the countries are less integrated into the international financial markets. Nevertheless, this shows that investments in developing countries can generate a good return.

The results of Norfund's operations can be measured at three levels. The first level is Norfund's own profit, which is an indication of whether capital brokerage in developing countries is profitable. It shows the profit achieved by the enterprises and businesses in which Norfund has invested. This type of profit shows other capital owners that investments in developing countries can pay off.

The second level consists of the development effects created by the enterprises in which Norfund invests. At the end of 2008, almost 250,000 people were working in these enterprises. Around 100,000 of them were working in some 200 companies in which Norfund had invested through other funds. Women accounted for 49 per cent of this workforce. This high percentage is at

³⁴ "Evaluation of the Norwegian Investment Fund for Developing Countries", 2002, FAFO & NCG

³⁵ Norfund's revenues mainly derive from interest on loans, dividends from investments, gains on the sale of assets and changes in the value of invested funds.

tributable to investments in micro-credit companies that target women. The percentage of women in enterprises in which Norfund has invested directly is considerably lower, 18 per cent in 2008. Norfund reports that the enterprises paid a total of NOK 3.2 billion in tax in 2008. Grameen Phone in Bangladesh alone paid more than NOK 2.2 billion in company tax, licenses and charges. A total of 52 per cent of Norfund's total fund investments are in sub-Saharan Africa. In 2008, 93 per cent of new fund investments were in Africa.

Norfund does not weight the size of its investment in individual enterprises, and the results include aggregate figures for all enterprises. Therefore, the results cannot be ascribed in their entirety to Norfund's engagement. Companies make and lose money and the capital base changes from one year to the next. How big a role a loan granted five years ago has played for employment today is mere conjecture.

The third level of results consists of the recipients of Norfund's capital, such as funds, institutions and individual enterprises. Aureos Capital LLC is an example of a new investment fund in which Norfund is a participant.

Aureos Capital LLC:
Global investments have generated higher tax revenues and more jobs

Almost ten years ago, Norfund identified a need for private equity funds in developing countries. These are funds that provide capital to small businesses, thereby enabling them to grow in size and competitiveness. In 2001, Aureos Capital was established as a joint venture between the British Commonwealth Development Corporation (CDC) and Norfund. Since then, Aureos has grown to become an organisation comprising more than 80 investment advisors worldwide. Norfund and CDC contributed seed capital in the start-up phase. Aureos now manages around USD 1 billion and provides risk capital to small and medium-sized enterprises in developing countries.

In line with its strategy for regional expansion, Aureos established new funds for Africa and Latin America in 2008 and 2009. Norfund has invested a total of USD 40 mil-

The Strømme Foundation in Mali

Sabou Diarra is a 50-year-old woman who lives in Bambabougou, Mali. She cannot read, write or do simple arithmetic, but she is one of the women in the village's savings and loan group that receives support from the Strømme Foundation. A loan of NOK 360 enabled her to buy a donkey to pull her cart, an acquisition that proved to be very smart. She used her newly purchased donkey and the cart she had inherited from her dead husband to transport goods for other people to and from the marketplace. From the income from her transport business, she repaid her loan. She is now earning more than she did before, which means that she can put food on the table every day, she can pay for schooling for one of her children and she can put aside some savings.

lion in the new Aureos Africa Fund, which has so far made investments in nine companies operating in 15 African countries. The Aureos Latin America Fund has a total capital of USD 184 million, of which Norfund contributed USD 25 million. Globally, Norfund has contributed USD 162 million to investments in funds managed by Aureos, or just over NOK 1 billion based on a USD/NOK exchange rate of around six kroner.

Norfund could not have reached as many small enterprises without its collaboration with Aureos. The model has increased Norfund's knowledge of local markets and proved to be a good example of how development can be promoted through investment. Between 2002 and 2008, for instance, the enterprises in which Aureos has invested paid USD 142 million in local taxes. At the end of 2008, the same companies employed a total of around 73,000 persons.

Microfinance has led to higher incomes, greater food security and more schooling

The UN's International Year of Microcredit in 2005 and the award of the Nobel Peace Prize to Muhammad Yunus and Grameen Bank in 2006 focused greater attention on micro-financing in the form of greater press

The Strømme Foundation in Uganda

Ojok Anthony is a 58-year-old man who lives in the village of Agile in Abim District, Uganda. A former butcher and livestock trader, he was nonetheless unable to earn enough money to meet his family's needs. After joining the village's savings and loan group, he made a cautious start by saving NOK 3 a week. He then gradually increased his weekly savings to NOK 15. When he had been in the group for six months, he took out a loan of NOK 1200 and opened a small shop. He soon repaid the loan and after a while, he took out another loan to make some improvements in the shop. With the income he earned, he was able to buy mattresses for his family and a bicycle that he used to sell his products. He also sent his children to school. Ojok says that "by participating in this savings and loan group, I have learned to save, as well as how to run a shop at a profit".

coverage, more micro-financing components in development projects and a greater willingness to invest on the part of companies, banks and funds. In 2004 it was estimated that 500 million people are being served through the micro-finance sector, primarily by being offered savings opportunities. At the Microcredit Summit in Halifax in 2006, it was estimated that around 100 million poor people had microcredit loans.³⁶

Building up well-functioning micro-finance operations can be seen both as direct support for businesses and as support for improving a business enabling environment. Giving poor people access to capital increases their possibilities of participating in markets. World Bank research³⁷ indicates that increased access to financing leads to increased growth and reduces income disparities and poverty. In Bangladesh, around 13 per cent of the population are customers of micro-financing institutions, and this sector is therefore of fundamental importance for

³⁶ Roy Mersland, *The Cost of Ownership in Microfinance Organizations*, World Development, 2009, 37(2), pp 469–478

³⁷ "Finance for All?" World Bank Policy Research Report, 2007, p 17.

large groups of poor people who would otherwise have had few financial alternatives. Bangladesh has achieved good growth in per capita GDP, averaging 3.3 per cent since 1990. The population living below the poverty line has been reduced from 70 per cent in 1971 to less than 40 per cent in 2005. Besides granting funds for Grameen Bank, Norway has provided support to the BRAC organisation and to several other micro-financing institutions through the Strømme Foundation and other organisations.

Despite the growing availability of microcredit and associated services, micro-financing is not a miracle cure for alleviating poverty that will lift every loan and savings customer out of poverty. Many poor people need more support than just a loan, such as training, to be able to increase their incomes. Nor is everyone an entrepreneur who wants to be self-employed; many would rather have a steady job. Nor is a loan sufficient for those living in rural areas of Africa, far from a market and with bad roads.

Norad granted around NOK 155 million for micro-finance projects in 2008. The projects operate at different levels, from simple savings and loan groups in rural areas to micro-financing institutions engaged in capacity-building and lending to professional funds in big cities.

The Strømme Foundation is a major Norwegian player in the micro-finance sector, and in 2008 received around NOK 14 million in support from Norad for micro-finance projects in eight countries in Asia and Africa. In 2008 the organisation had a total of approximately NOK 123 million in loans outstanding to its 70 partners, many of whom were regarded as so small that they would otherwise not have had access to the capital market.

One of the challenges faced by the Strømme Foundation is that there are a growing number of international sources of capital for micro-finance, which is made available through both banks and funds established for this purpose, such as the new Norwegian Micro-finance Initiative (NMI). These concentrate on the larger, more successful micro-financing institutions and consequently compete for the best customers.

The Strømme Foundation's micro-financing programmes include small savings and loan groups in rural areas. These groups give women the possibility to save small amounts each week, and each group decides who is to be allowed to borrow from these savings. In the organisation's report to Norad, reference is made to the following results:

- » Borrowers are given the opportunity to invest in different types of seed, which in turn makes them better equipped to achieve good harvests despite changing rainfall patterns. Women have received supplementary training in a handicraft, such as basket weaving, and learn to market their products.
- » Better crops or the sale of handicraft products have brought simple, but important changes in the women's lives, such as greater food security in the form of more nutritional food, better clothing and money to pay for their children's schooling. These results are reported from countries such as Rwanda, Tanzania and Uganda.

- » Micro-financing has made it easier for people to pull through when crises occur, such as cyclones and floods in Bangladesh.

.....
A better working environment has increased profitability for Noremco in Tanzania

Veidekke's subsidiary, Noremco, which is headquartered in Dar es Salaam and has close to 1,000 employees, operates in the construction industry in East Africa. In August 2001, Noremco received a Norad grant of NOK 8.5 million, to be paid over a period of six years, for a health project focusing on HIV/AIDS and malaria. The target group comprised both company employees and their families, totalling around 3,800 persons.

The project has brought about many improvements in the health situation of the target group. For instance, they have learned more about sexually transmitted diseases, HIV/AIDS, malaria and other common diseases, 63 per cent of the group have been tested for HIV/AIDS, and 95 per cent now use mosquito nets. Stigmatisation relating to HIV has been reduced, and accident statistics have dropped to the same level as at Veidekke in Norway.

This has led to stability in the company's workforce, improved employee skills and better cooperation. The project has resulted in increased motivation, competence and job satisfaction. These measures have been important for Noremco's position in the market, which in turn affects profitability. Noremco was voted "Best Foreign Contractor" in Tanzania in 2007.

.....
Flourishing rose business has created 400 jobs near Lake Victoria in Uganda

Jambo Roses Ltd. was established as a rose nursery in 1996 with financial support from Norad. The company was located in the vicinity of Lake Victoria and originally employed a total of 70 persons, 80 per cent of whom were women. Today, the company has grown to become the biggest employer in the local community with close to 400 employees who produce some 30 million roses per year. All production is exported to customers in Norway, France, UK, Germany and Sweden. Thanks to this enterprise, small shops and other businesses have been established in the area around the nursery.

In connection with Jambo Roses Ltd. a primary school has been established which is supported by the nursery and the Holmestrand Rotary Club in Norway. The school has close to 200 pupils. The fact that there is a school makes it easier for the nursery to attract qualified employees. The nursery also runs educational programmes on family planning and the prevention and control of sexually transmitted diseases. The company reports that increased focus on social responsibility has proved beneficial to the efficient production of quality roses. Since all the company's customers are in Europe, the company has focused on environmental measures relating to use of chemicals, use of fertilisers, hygiene, waste processing, composting, etc. in order to obtain the necessary accreditation for export to the EU.

.....
Partially successful assistance for private sector development in Sri Lanka

Norway's assistance for private sector development in Sri Lanka has produced clear results for the local community and the enterprises involved. As a result of Norad's application-based support scheme and match-making programme, 44 Norwegian compa-



PROFITABLE SOLAR ENERGY

Inspired by the “Lighting a Billion Lights” campaign that is supported by Norad, entrepreneur Som Dev Kola from Sunaria, India, has started his own company to make solar-powered energy more popular.

“I discovered the lanterns in the village where a friend of mine lives and it struck me that Sunaria could use them too,” explains Kola. “We contacted the Energy and Resources Institute (TERI), which assessed the needs of our village, and after that the campaign came to us too. Since a lantern only costs three rupees for 78 hours of non-polluting light, every villager saves 100 rupees a month by not using candles. Our children can do homework in the evenings and we adults can work late.”

“By watching how TERI worked, I learned about the potential of solar energy. In October 2008 I established a marketing firm for solar energy products, and today we are making a profit and providing jobs for the villagers. We started out with ten villagers and are now a team of 895 people, and we have already presented solar energy products in around 300 villages. The products we market today include lanterns, panels, kettles and street lamps. We also sell solar cell equipment and today every member of our team earns between 5,000 and 15,000 rupees per month,” says Kola. (Text and photo: Deepak Parvatiyar)

nies have established commercial enterprises in the country which provide around 1500 viable, year-round jobs. A total of 16 companies are engaged in trade, while 28 have industrial operations. A significant percentage of the jobs are located in the poorest areas of Sri Lanka, and the majority of the employees are women. Other benefits include indirect effects relating to employment by sub-contractors and the ripple effects generated by employee incomes.

According to the preliminary results of a major evaluation of projects in Sri Lanka, Bangladesh, South Africa and Uganda, the jobs that have been created in the last 15 years would most likely not have been established without the support received from Norway. These results will be presented in greater detail when the other country studies are completed in early 2010.

The report shows that the enterprise-oriented projects have had the greatest impacts within export industries. The companies es-

tablished have been both wholly owned by Norwegians and owned by domestic nationals. Most of the jobs are related to the processing of agricultural raw materials. Development of IT software and production of fibreglass boats are two other important sectors. Transfers of Norwegian expertise and experience from international business have been important contributions, besides which some companies have focused on their own, research-based product development. The most attractive element for Norwegian partners has been the access to a low-salary workforce, but good local IT expertise has also been an important factor.

Over 300 Norwegian companies have received support in one or more forms, primarily small sums to finance studies of potential partnerships and market conditions, employee training and, to some extent, investments. Of the 233 Norwegian companies that have received support through the match-making programme, some 70 per cent have visited Sri Lanka to explore opportunities more closely. The evaluation team considers these visits to have been genuine attempts to establish businesses. Most of the companies that have investigated possibilities have concluded that establishing operations is not a realistic proposition, often based on test production which has shown that the quality of the products has been too poor or that environmental or working environment requirements have not been satisfied. A total of 13 per cent of the Norwegian companies that have received support through Norad schemes were operating in Sri Lanka in August 2009.

Several weaknesses in Norway’s assistance for Sri Lanka have been identified. The preliminary assessments of the evaluation team are that support provided by Norway has not been sufficiently aligned with general political guidelines as regards maintaining neutrality in a conflict context or with the 1998 Norwegian strategy for private sector development in developing countries regarding untied aid. This is partly explained by the fact that overall Norwegian assistance for Sri Lanka has largely been oriented towards peace-keeping. The evaluation team has also pointed out that the cost effectiveness of several important business-related projects has been low. Another weakness pointed out is that Norad’s support schemes have not

been sufficiently quality assured in terms of health, safety and environment.

Norway's efforts have had a modest impact on Sri Lanka's economy. Norwegian direct investments account for half a per cent of total foreign investments. To some extent, the Norwegian investments have resulted in transfers of specialised expertise and advanced technology.

Norway has provided extensive support for building up national and regional chambers of commerce. Partly as a result of the long-term, comprehensive support for this purpose, excessive capacity has been built up which will not be sustainable when donors reduce their support. An unexpected result of this institutional development is that these institutions became key local partners when donors provided large-scale emergency relief after the Tsunami disaster.

Varying experience with developing small and medium-sized enterprises in Zambia and Bangladesh

Norad started its own credit programmes for the small business sector in Zambia and Bangladesh in the late 1980s. In Zambia, the programme started out with a good rate of repayment and good operational control. It was based on the principle that at least 50 per cent of financing was to come from commercial banks, while the project was to finance the remainder, provide technical assistance to the companies and be responsible for the process of approving loans and collecting loan repayments. The purpose of this approach was to address the two factors underlying banks' unwillingness to extend loans to small and medium-sized enterprises, namely that it was too expensive to administer a large number of small loans and there was too much uncertainty associated with the business concepts. The project was wound up after a few years because the management lost control of operations, and the funds were considered to be lost.

The outcome was different in Bangladesh. A programme originally funded by Norway, the Small Enterprise Development Project (SEDP), is still in operation, although Norway is no longer involved. The pilot phase began in 1990 and the programme began to operate on a full-scale basis from 1995. The model

was largely the same as in Zambia, in that loans were provided as a combination of project funding from Norad and funds from a state-owned commercial bank, Agrani Bank. The SEDP contributed training and assistance in preparing loan applications. In 2003, when Bangladesh wished to renew its agreement with Norad, the programme was more or less operating at break-even, but questions were raised as regards its sustainability. Partly based on the consideration that a programme targeting the private sector should be self-sufficient after 13 years of support, applications for further support from Norway were rejected.

When Norway withdrew in 2004, the results of the SEDP were summed up as follows:

- » Loans were extended to 33,000 small enterprises in the period 1995–2003
- » Of these, 25 per cent were women entrepreneurs (the target was 20 per cent)
- » The repayment rate was around 92 per cent
- » A total of 68,000 new jobs were created in the companies that received funding
- » Around 19,000 small business owners had participated in training programmes
- » Studies had estimated that the entrepreneurs who had received training increased their incomes by an average of 77 per cent, while the number of employees in the companies rose around 140 per cent.
- » In December 2003, the SEDP had loans outstanding to approximately 14,000 clients

The SEDP has continued to operate using its own funds since Norway withdrew. The question of institutional ownership has yet to be clarified, but the SEDP functions as a parallel credit provider under Agrani Bank.

Focusing on entire value chains has promoted growth in small enterprises in Bangladesh

The South Asia Enterprise Facility (SEDF) is jointly financed by Norad and the International Finance Cooperation, the EU and the UK. The aim is to promote the growth of small and medium-sized enterprises in Bang-

ladesh, Nepal, Bhutan and North-East India. Norway has provided a total of NOK 50 million in funding for the programme between 2003 and 2009.

The idea is to focus on selected sectors in Bangladesh that cover the entire value chain, and engage market players directly by providing technical assistance and advisory services. The costs of supplying these services are shared with the users. A result-based reporting system was incorporated right from the start, with incentives for participants to achieve set targets.

A review carried out in 2006 shows that the small enterprises that received support created 16,239 new jobs, of which 65 per cent were held by women³⁸. Based on a total programme cost of around USD 6 million, this means that each new job costs USD 375. The enterprises in the programme scored better than comparable enterprises in Bangladesh in areas such as return on invested capital, production capacity and availability, work force stability and pay.

Infrastructure reduces enterprises' costs

A large part of Norway's support for private sector development is provided in the form of multilateral assistance, particularly support for promoting a business enabling environment. Due to the complexity of this type of assistance, most of the major projects in this field are run as multi-donor projects. A single donor has neither the expertise nor the resources required to adopt a broad-based approach to improving framework conditions.

One example of this type of multilateral support for creating improved framework conditions is the work of the World Bank in Ethiopia. The Bank's contribution to private sector development was rated "moderately unsatisfactory" in an evaluation³⁹ of the Bank's overall assistance to Ethiopia in the period 1998–2006.

38 International Training Centre, *The 2008 Reader on Private Sector Development*, 2008

39 "Ethiopia: Country Assistance Evaluation, 1998 – 2006". Independent Evaluation Group, Report No 43524, June 2, 2008.

The attempts to enhance investment opportunities for the private sector by means of privatisation and competition regulation achieved only limited results in Ethiopia. The evaluation points to improvements in the fields of business licensing, customs clearance, tax regime and labour regulations. A special Competition Commission was established. Only 23 cases were reviewed in the period 2005–06, and there is little to indicate that the Commission is able to deal with the preferential treatment of companies affiliated with political parties.

The evaluation points to positive outcomes with regard to economic growth and development of roads:

- » Road density increased from 27 km per 1,000 square kilometers in 2000/1 to 35.9 km in 2005/6.
- » 1,264 km of new roads have been added.
- » Half of the 140 km road between Gewane and Mille has been rehabilitated.
- » The share of the road network in good condition increased from 17 to 60 per cent between 1997 and 2006, reducing vehicle operating costs by 16 per cent and journey time by 25 per cent.

This example underpins the World Bank's argument that infrastructure can be instrumental in reducing enterprises' business costs. However, the evaluation maintains that the results of the World Bank's support for overall infrastructure were mixed.

According to the evaluation, the World Bank has done little to increase food security in Ethiopia. This is ascribed to the fact that the World Bank and the Ethiopian government did not agree on the types of measure required. In Amhara, reference is made to concrete results such as the rise in average income from USD 320 to USD 347, but it is possible that this change can be attributed to factors other than the contribution of the World Bank.

Greater competitiveness in Nicaragua

Another World Bank example of interventions aimed at improving framework conditions is a project in Nicaragua. At the start

of the new millennium, Nicaragua lagged far behind its neighbours in terms of competitiveness, and had no strategy for solving this problem. In 2003, the World Bank launched a competitiveness project designed to explore the possibilities of improving competitive conditions for Nicaraguan enterprises and to pilot new business development services for them. The total cost of the project was USD 5.95 million, of which USD 5.4 million was contributed by the World Bank and the rest by the Nicaraguan authorities.

The project helped to facilitate private sector development in Nicaragua by simplifying regulations and legislation, strengthening institutions, establishing industry clusters and promoting exports.⁴⁰ Some concrete results:

- » The number of days required to start a business fell from 71 to 39, while the number of procedures that new enterprises had to undergo was reduced from 12 to 6 in the period from 2003 to 2006.
- » Tourist arrivals in Nicaragua rose by 17 per cent in 2004, from 525,400 to 614,800.
- » Revenues from coffee production almost doubled from 2004/5 to 2005/6.
- » Exports of dairy products grew 33 per cent from 2003 to 2004.
- » Employment rose by 38 per cent in the tourism industry and by 67 per cent in light manufacturing.
- » The government investment promotion agency, Pro-Nicaragua, attracted USD 137.7 million in foreign investments, which in turn led to the creation of 12,000 new jobs in the period 2003–2005.

Inadequate assessment of market access in Bosnia-Herzegovina

The efforts of the UN Development Programme (UNDP) to promote economic development in Bosnia and Herzegovina were

evaluated in 2008⁴¹. The evaluation points out that while UNDP has helped to support livelihoods on an ad hoc basis by distributing equipment and livestock, no necessary assessments of market access and job creation were carried out. Little attention has been devoted to women's market access. The evaluation concludes that UNDP's contribution to economic development has been limited so far, largely because the support has been spread among individuals and families without having any impact on the local economy.

There are, however, examples of small projects that have been successful. In the past few years, UNDP has adopted a more systematic approach by granting support to entrepreneurs based on a detailed assessment of the local market. For instance, through one of the projects in the Srebrenica area, UNDP has helped to link dairy producers and buyers and to market the products. This has led to improvements at household level, but so far it is difficult to tell what effects it may have on the local economy.

40 Nicaragua Competitiveness Learning and Innovation Loan (2001–06), www.worldbank.org.

41 "Assessment of Development results. Evaluation of UNDP contribution. Bosnia and Herzegovina". Evaluation Office, May 2009. United Nations Development Programme.



SUMMARY

Norwegian aid has been reoriented from direct support for enterprises to support to create a more enabling environment. In addition to providing general support through multilateral institutions, Norway has concentrated its efforts in sectors where Norway has specialised expertise, such as petroleum, energy and fisheries. Some conclusions:

- » There is a general lack of good result reporting on Norwegian support for private sector development. There are accounts of individual companies that have succeeded or failed, but there is insufficient knowledge of the systematic impacts at sector, company and individual level. There is a variety of explanations, and not everything can be attributed to inadequate reporting procedures. The private actor makes the most important decisions, and as a rule the assistance provided is only a small part of the basis for investment decisions. Markets, economic conditions, competitors and suppliers usually have a greater impact on a company's profit than, for instance, a course financed by development assistance funds.
- » The investment climate has generally become more business-friendly in many of Norway's partner countries. Among other things, Norfund's results suggest that it has become easier to run a private business in these countries.
- » Micro-financing has been a key area of Norwegian assistance for private sector development since the early 1990s. Several channels have been utilised, and on average these efforts have produced good results. However, micro-financing is not a miracle cure for poverty.
- » Norfund, Norad's industrial and commercial financing facilities and many of the other measures implemented by Norway appear to contribute towards creating profitable work places. However, we know too little about the cost effectiveness of these results, and about the actual impacts of the aid for the target group.



Norway has supported aquaculture research and development in Vietnam since 1998. The picture was taken at the RIA No 1 research institution's marine installation in Halong Bay.

INCREASING FOOD PRODUCTION

Poverty, especially in Africa, cannot be alleviated unless millions of smallholder farmers and fishermen produce more and earn more. Food production has long been an area of minor importance in Norwegian development assistance. Assistance provided for the promotion of sustainable agriculture in Zambia and Malawi is showing results, but a negative trend in food production has yet to be reversed. Assistance for fisheries management has been successful, as exemplified by Namibia. Norwegian aquaculture expertise is being put to effective use in Vietnam and Thailand. An evaluation of Norwegian assistance for the fisheries sector points to a lack of focus on poverty.



There is enough food in the world, but due to inequitable distribution a large part of the world's population does not get what it needs in the way of healthy, nutritious food. The reasons for this are complex, but there is a growing recognition that more is involved than merely distribution and purchasing power. The growth in productivity that the world has seen for several decades now seems to be coming to a halt. In countries such as Tanzania, Ethiopia, Zambia and Madagascar, food production has declined in the past few years. To a greater degree than before, production levels vary substantially from one year to the next due to climate change. An increase in the price of key food items has led to a significant increase in poverty. The rise in prices has usually benefited the distributors, not the

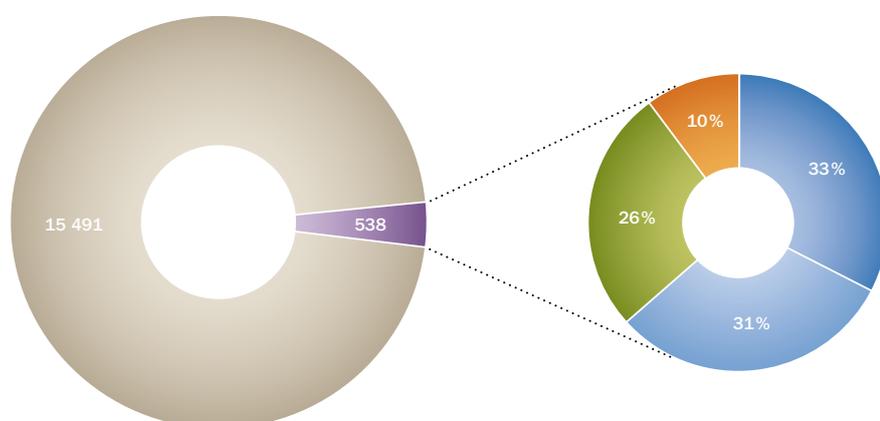
farmers. In addition, the prices of seed grain, fertiliser and other farming inputs have risen more than the farmers' incomes.

In national strategies for economic development and poverty reduction, many developing countries have focused on developing the agricultural sector and have made exports of agricultural products an important driver of the country's economic development. There is much to indicate that a new approach is required if this policy is to succeed. Farming and fishing must supply a steadily growing population with reasonably priced, locally produced food. Around two-thirds of the world's poor live in rural areas and the vast majority depend on farming and fishing as their main livelihood. If the goal of

halving poverty and hunger by 2015 is to be achieved, it is not sufficient that they only produce food for their own consumption. They must make a financial profit that enables them to buy goods and services to improve their standard of living. It is not enough that a few individuals succeed in exporting niche products such as fresh vegetables, flowers and jumbo prawns. The majority of the population engaged in the primary sectors have good opportunities to increase production, for instance by changing farming methods.

Climate change underscores the importance of both increasing food production and adapting the agricultural sector to make it more resilient to climatic variations. The UN's Food

FIGURE 6.1 Support for food production is a small sector of Norwegian aid



Bilateral assistance in 2008, NOK million

Bilateral assistance in 2008: NOK 16 billion

■ Bilateral aid
■ Aid for food production

Food production: NOK 538 million

■ Non-governmental organisations
■ Public sector
■ Multilateral organisations
■ Private sector

Source: Norad

and Agriculture Organization (FAO) estimates that 80 per cent of the world's fish stocks have been fully or over-exploited. This also applies to coastal resources which are largely harvested by means of small-scale fishing, and by poor population groups. Promoting ecosystem-based fishery management has been an international goal, and entails consideration of the impact of fishing not only on the target species, but also on the overall environment.

The availability of resources that benefit weak groups is important for alleviating poverty. Small-scale fishing is usually carried out by poor people who cannot afford to take account of the environment. They fish from shore or in shallow water with simple equipment, and can easily overfish stocks of young fish. The challenge in providing support for such groups lies in enabling them to climb out of poverty while avoiding the depletion of fish stocks.

IMPORTANT ELEMENTS OF NORWAY'S DEVELOPMENT ASSISTANCE

Food production is not an area in which Norway provides a great deal of assistance, and Norwegian support has declined over the years. A similar reduction has taken place in overall international assistance for agriculture, which fell from around ten per cent of total bilateral aid in 1979 to three per cent in

2007. The global food crisis in 2008 has made this issue one of urgent relevance.

In 2008 Norwegian assistance for farming and fishing totalled NOK 538 million, equivalent to 2.4 per cent of total development assistance and 3.4 per cent of bilateral assistance. NOK 141 million went to multilateral organisations, NOK 164 million to bilateral cooperation and NOK 176 million to non-governmental organisations or foundations.

Through multilateral aid, Norway has attached particular importance to providing support for key organisations such as the FAO, the International Fund for Agricultural Development (IFAD) and the Consultative Group on International Agricultural Research (CGIAR). Part of the support for the work of the World Bank covers farming and fishing. The same applies to support for other international organisations, such as the UN Development Programme (UNDP) and, to a growing degree, the UN Environment Programme (UNEP). Support is also provided for the World Food Programme (WFP). Support for the multilateral institutions comprises both core contributions and assistance for programmes in individual countries.

Agriculture

Besides channelling aid through international organisations, Norway provides assistance

for the agricultural sector aimed at improving living conditions in rural areas by supporting farmers' organisations, advisory services, education and research. Norway also provides funding for seed, other farming inputs, public-private sector cooperation and conservation of biological diversity.

In the past few years, Norway has helped to reorganise support for the agricultural sector in Zambia and Malawi, emphasising the importance of more climate-resilient, environment-friendly farming for strengthening sustainable local food production.

Fishing

Most of Norway's assistance for fisheries has gone to Africa, primarily Namibia and Mozambique. The fishery sector is also one of Norway's main areas of cooperation in Vietnam.

Fishery assistance is chiefly concentrated on enhancing expertise in fishery research and management institutions in partner countries. The aim is to promote sustainable fishery and aquaculture management, including the development of legislation, regulations and management procedures that ensure the sound, socially equitable use of resources and an economically productive industry. Training and education, which also comprises support for participation in international processes and work on conventions, are key elements of fishery assistance.

Education and research

Particular importance is attached to support for higher education and research in Norway's assistance for the agricultural, forestry and fishery sectors. In many cases, such support entails close collaboration with Norwegian institutions. Several African institutions that have taken part in institutional cooperation now have international-level expertise, and serve their countries by carrying out applied research and offering training programmes for the public and private sectors.

The international agricultural research carried out by the CGIAR centres contributes significantly to conserving biological diversity in farming, forestry and fishing. At the same time, the centres ascertain which species are resistant to disease, pests and cli-

matic variations, and thus best suited for various areas. This knowledge is made available to the public and is particularly useful to poor countries. CGIAR research is highly decentralised, which means that both national authorities and local research institutions can share in and benefit from research results and develop their own expertise.

CHARACTERISTICS OF GOOD RESULTS FROM AID

Increased production and export of food products are key indicators of a country's development, but it is difficult to measure the impact of aid, seen in isolation. On the other hand, the effect of aid for specific projects and programmes can be measured in the form, for instance, of larger catches and crops.

A normal yield in small-scale farming is around 500–900 kg per hectare, whereas by switching to different farming systems and more efficient use of input factors, yields can be increased to three to five tonnes per hectare. Where this type of result has been achieved, it is a clear indication that aid has been effective.

Many factors have an impact on changes in primary industries, and change processes take time. Aid can play a vital role in driving such processes. It is particularly important to ascertain:

- >> whether the administrative frameworks established with Norway's support are applied and have improved the enabling environment for actors in primary industries
- >> whether research-based expertise is further developed and applied in sustainable institutions
- >> whether primary producers put into practice the new farming systems that have been recommended to them and in which they have received training
- >> whether households engaged in primary industries manage to produce a surplus that encourages them to focus more strongly on their main livelihood, rather than looking for odd jobs outside their village

The following examples show that some good results have been achieved, but reflect the fact that apart from fisheries, food production is an area in which Norwegian development assistance has been fragmented and suffered from a lack of long-term, consistent strategies.

EXAMPLES OF RESULTS OF NORWEGIAN AID

Norwegian assistance for the fisheries sector has produced good results, but lacks a poverty perspective

Norway's assistance for fisheries primarily goes to sector programmes and areas in which Norway has comparative advantages and cutting-edge expertise. This assistance, in the period 1985 to 2006, was evaluated in 2008. During these years Norway granted a total of NOK 2.45 billion in fishery assistance to 55 different countries. Over half of this funding was bilateral support for African countries. The evaluation concentrated on the three main areas of bilateral assistance:

- >> technical assistance to support fishery policy development and administration
- >> support for research, education and training
- >> direct support for private-sector fishery enterprises

The main conclusion of the evaluation is that Norwegian development assistance has played a positive role in supporting fisheries development in partner countries, in particular:

- >> Fishery resource management has improved in Namibia, Tanzania and Vietnam. Norwegian advisors have helped to build up capability and capacity.
- >> The institutions that have received support have succeeded in retaining key staff members and are sustainable. An important reason for this is that Norwegian development assistance has been flexible, recipient-oriented and long-term.
- >> The support provided for the establishment of private enterprises in developing countries has produced good results and helped to create employment opportunities, largely for women.

The evaluation questions the degree to which assistance for the fisheries sector has helped to alleviate poverty and points out that more attention should have been paid to gender issues. It also points out that due to the use of Norwegian expertise and concentration on fields in which Norwegian fisheries expertise offers advantages, the poverty perspective played a less central role.

Exploitation of by-products from fish in Sri Lanka and crayfish in Nicaragua increased commercial value creation

In Sri Lanka, fish for which there is no market is thrown back into the sea. A project has explored the possibilities of utilising this fish as food for human consumption and in other ways, thereby promoting value creation, creating jobs and reducing pollution. From 2003 to 2007 Norway provided NOK 4 million for collaboration between the Norwegian Institute of Food, Fisheries and Aquaculture Research (Nofima) and the Industrial Technology Institute in Sri Lanka.

Good results were achieved through this collaboration in terms of research to find profitable ways of utilising by-products from the fishing industry. A variety of food products were developed, as well as methods for the production of silage which is used in animal feed and other products for industrial purposes. Several fish processing enterprises have begun commercial exploitation of fishery by-products. The areas around fish landing sites and at the various stages of the processing chain are now cleaner; an environmental gain that has helped to enhance the image internationally.

In Nicaragua, Norad has provided NOK 950,000 to the company Nicafish for a feasibility study and training in fishing and processing langoustines, a deep-sea crayfish that is not often fished. Work on test fishing and by-product exploitation began in 2007.

Usually, only the tail of the langoustine is used. Nicafish's plan to expand its activities to make use of the shell and other by-products of its langoustine tail production was considered interesting from a resource, environmental and financial standpoint. The langoustine tails are exported to markets that pay relatively good prices. The chemical substance chitosan, which is used in the phar-

maceutical and other industries, can be extracted from the langoustine shell, and flour is now being produced from the by-products, which means that use is made of the entire langoustine.

This supplementary production has generated about 200 jobs, most of them held by women. Nicafish, which is located just outside Managua, buys up fish and shellfish, and processes and exports products, primarily to the USA. Nicafish now accounts for 25 per cent of Nicaragua's total fish exports.

Namibia leads the way in responsible fisheries management

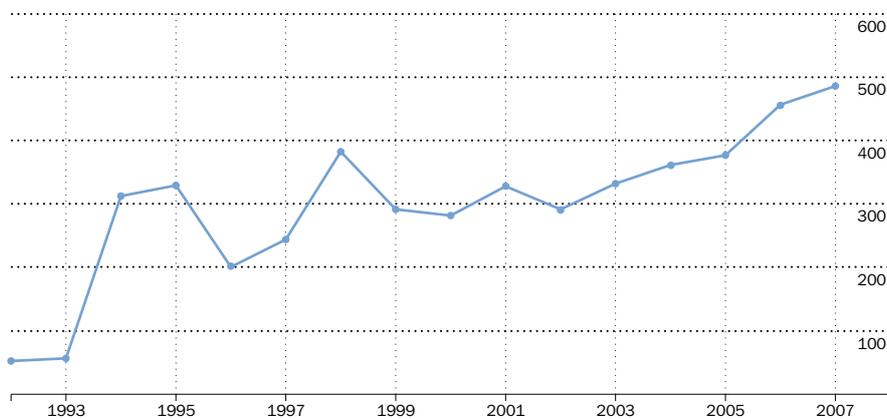
Namibia became independent in 1990, until which time the country's extremely rich fish resources had been subjected to unregulated overfishing by vessels from many countries. In a letter to the then Norwegian Prime Minister Gro Harlem Brundtland, Sam Nujoma, leader of the SWAPO liberation movement, asked Norway for assistance for the fisheries sector. Cooperation between the two countries was initiated in the very year the country gained its independence, and one of the first steps with which Namibia received help from Norway was to establish a 200-mile economic zone.

Norway terminated its fisheries assistance to Namibia in 2005, after 15 years of bilateral development cooperation in which Norway's contributions had a total value of NOK 400 million. By then Namibia was considered to have built up sufficient capability and capacity to manage its fishery resources without external support. Norway's assistance for the Namibian fisheries sector has been cited as particularly successful on several occasions, and has been thoroughly analysed.

In 2008, three years after Norway wound up its assistance, the World Wildlife Fund (WWF) published a study 42 that ranked Namibia among the leading nations in the world in the field of fisheries management. Namibia was in sixth place after Norway, USA, Canada, Australia and Iceland, and ahead of most countries in Europe and Asia.

42 T.J.Pitcher & al., *Safe Conduct? Twelve years fishing under the UN Code*, WWF, December 2008, 65 pp.

FIGURE 6.2 Namibia's fish exports have increased significantly since the start of Norwegian aid in 1990



Exports, USD million

Source: FAO

In the 1970s, catch volumes totalled as much as 1.5 million tonnes in some years, whereas the total was 600,000 tonnes in 2003. This illustrates the WWF study's conclusion that fishing is now sustainably regulated. In autumn 2009, the Namibian Minister of Fisheries and Marine Resources, Dr. Abraham Iyambo, received a FAO award for his efforts to promote sustainable fisheries management. This indicates not only that Norway's assistance to build up expertise and capacity produced good results while the two countries were engaged in development cooperation, but also that the results have endured over time.

Improved management and increased fish production have benefited small-scale producers in Vietnam

When development cooperation with Vietnam was initiated in the early 1990s, assistance in developing a modern fisheries law was one of the main Vietnamese priorities. The Convention on the Law of the Sea, which allowed countries to extend their economic zones to 200 nautical miles, came into force in 1994, and there was strong international emphasis on sustainable fisheries management. In 1998 Norway signed an agreement with Vietnam on assistance in developing a fisheries law. The Norwegian Directorate of Fisheries and FAO's Legal Department were Vietnam's partners in this endeavour. The Fisheries Law was drafted and adopted by the National Assembly in the space of three years.

An agreement was concluded for the period 2004–2010 for a new phase of cooperation on implementing the statute and developing regulations. Support for both phases totalled NOK 34 million.



Norway has funded aquaculture research and development in Vietnam since 1998. This picture is from the Research Institute for Aquaculture No 1 (RIA1) marine installation in Halong Bay. The fish splashing in the netpens are a species called cobia. (Photo: Ken Opprann).

An evaluation of the assistance provided for the fisheries sector points out that the value of fish exports from Vietnam has increased by at least USD 3 billion since 1996. This growth rate would have been difficult to achieve without an appropriate regulatory framework and without the technical and professional capacity to underpin the development of the aquaculture sector.

Vietnam has long traditions of fish-farming, but it also has the potential to increase production in a more environmentally sound way. Vietnam wished to enter into partner-

ship with Norway to exploit this potential more effectively by focusing on education and increased research capability in the field of aquaculture. Norway has provided funding for aquaculture research and development since 1998. Over a ten-year period, the Research Institute for Aquaculture No 1 (RIA1) in Vietnam has received a total of NOK 30 million. Since 2003, Norway has also contributed to increasing educational and research capability in the field of fisheries and aquaculture by providing NOK 30 million in funds for Nha Trang University. This cooperation is now in its second phase. A total of 30 master's and PhD students completed their degrees in the first phase, thereby strengthening capacity in Vietnam.

The research carried out has enabled poor families to increase their production by up to 40 per cent after participating in an aquaculture pilot project involving a new type of tilapia fish. Selective breeding has increased the growth rate of the fish by 46 per cent and given it greater tolerance to cold than ordinary Nile tilapia. Hardly any of the fish farmers who used this method experienced fish disease, contrary to most of the other fish farmers.

In 2001, tilapia production in Vietnam totalled 15,000 tonnes, rising to 40,000 tonnes in 2005. Production for 2008 is estimated to be 70,000 tonnes. Norwegian assistance has helped to enhance Vietnamese research capacity in the field of genetics, fish health and aquaculture. At the end of 2008, 154 students had commenced or completed master's degree studies at the institute, 34 per cent of whom were women. A total of 36 out of 106 graduates now work at the institute. Three of them have commenced or completed doctoral studies with support from the project. The second phase of Norwegian support for the institute is now completed.

.....
Thailand has made good progress towards establishing an environmentally sound fisheries and aquaculture industry

Thailand has an extensive aquaculture industry that is largely based on small-scale operations. After the tsunami in 2004, a hard-hit Thailand wished to enter in cooperation with Norway on testing and developing modern aquaculture. The assistance

New farming methods provide protection against drought

–“Even in times of drought, I don't lack food. Since I began to use conservation agriculture methods four years ago, I haven't needed food aid, and I have always had enough to eat and to sell to others,” says Sinoya Phiri (3), father of four.

Phiri, who lives in Shimabala, Zambia, used to harvest only 50 sacks of maize. “Now I obtain between 100 and 150 sacks. I could have managed even more, but we have a limited amount of land and I have to share the five hectares with my younger brother.”

Phiri now has a higher income thanks to his improved crop yield. His increased earnings enable Phiri to give his brothers and sisters an education, and to support his mother. Three of his children also go to school. Through the Conservation Farming Unit, Phiri bought his first pig to expand his income base. He then borrowed a boar to breed more pigs and now has a total of 80 pigs.

“When I have problems, I sell a few pigs. I also sell pigs to buy farm equipment.” Phiri uses pig manure as his main fertiliser and only uses chemical fertiliser as a supplement. “My maize does better than the maize of farmers who only use chemical fertiliser,” he maintains.

Phiri is now using his increased earnings to build a modern house. He has also bought a 21-inch colour TV, a satellite dish aerial and a generator. “Since I'm a football fan, I can now turn on the generator when there's a match on TV. I also use the generator if a pig gives birth late at night,” says Phiri. When the new house is finished, Phiri plans to connect it to the national electricity grid. (Tekst and photo: Newton Sibanda)

provided by Norway in the period 2005–2010 will total close to NOK 17 million. Thailand itself is contributing a far greater amount.

Cooperation has encompassed various aspects of aquaculture activities such as operation of aquaculture installations, fry production, development of feed, fish health, etc. The Thai Department of Fisheries (DOF) has established a pilot farm in partnership with the Norwegian Institute of Marine Research in Bergen. An important component of this project has been the testing of tropical species to determine which species are suitable for aquaculture in Thailand, biologically, in terms of behaviour and in terms of market potential. Norway has assisted Thailand in developing a national development strategy and a regulatory framework for its aquaculture industry. After the tsunami Thailand also asked Norway to collaborate on assessing the size of its fish resources. This is important to ensure that harvesting does not destroy the resource base.

A project review carried out in June 2009 was very positive and shows that the goals that were set have been achieved. The DOF now

has the capacity and capability to run the farms itself. The fish from the farms have been very well received in the international market, and so far fish with a value of NOK 3 million have been exported to Germany, Japan and Singapore. Once Thailand has put in place a regulatory framework, it will allow private investments in aquaculture technology.

The benefits from the assessment of Thailand's fish resources so far are encouraging. The information has been utilised by the fisheries management, and has led to limitations on fishery activity in marine areas that are important for fry production.

.....
Food security has improved and the natural resource base has been restored in Ethiopia

Unsustainable farming methods over a period of many years have led to erosion and degradation of the soil and other natural resources in the Tigray province of Ethiopia. This has reduced the possibilities of making a living from farming and other activities based on the surrounding natural environment. The degradation of soil quality as a

result of both the physical loss of soil and the deterioration of the chemical and biological composition of the soil has made the land less fertile. It has also made the natural environment in the area less resilient in periods of drought or heavy rains.

In the period 2007–08, Norway provided a total of NOK 17 million for the Integrated Agricultural Development Project. The project was coordinated by the Development Fund and implemented by the Relief Society of Tigray and the Women’s Association of Tigray.

The overarching goal was to improve food security in a sustainable manner. This was to be achieved by improving the natural resource base which, at the time the project was started, was considerably degraded, promoting agricultural production and productivity and improving the range of social services.

The end review⁴³ shows that the target group has benefited from greater food security and higher incomes as a result of increased food production and the sale of surplus crops. Local communities are also better equipped to tackle significant variations in weather now that the natural resources have largely been rehabilitated and a proper system of water resource management has been established. With regard to the rehabilitation of the natural environment, the soil is not only more fertile and arable than prior to the start of the project, but the natural habitats of wild animals have also been restored. Furthermore, the water balance has been improved through the installation of shallow wells and the soil contains more moisture than before. Capacity-building projects have enabled women in particular to improve their entrepreneur and business skills.

.....
From poaching to commercial agriculture in Zambia

In Norad’s results report for 2007, mention is made of the challenging interaction between wildlife and people in the South Luangwa National Park in Zambia. Norway has provided funding for the management of this national park for some time, including support for the establishment of alternative liveli-



.....
HEALTHY CASSAVA BOOSTS EARNINGS

Rajab, a farmer, comes from the village of Tongwe in Tanzania and has benefited greatly from a research project at Sokoine University of Agriculture.

“Before the researchers helped us, we spent a lot of time planting cassava, but the yield was depressingly low. The researchers taught us modern methods of cultivating cassava, and how to deal with disease by removing sick cassava plants to prevent the disease from spreading to the other plants,” Rajab continues. “I am glad that we now own a centre where we can process the cassava, using equipment that presses the water out of the cassava.”

“My income has increased considerably and I can now send my children to school because I make money from selling cassava. I can now save money to cover my family’s health costs, because there is no hospital near our home and we have to travel all the way to Muheza,” says Rajab.

“I’m also glad that the researchers have brought new types of seed that are more disease-resistant. Now that I grow cassava, I have food all year round. I plan to expand my operations to increase my income so that I can improve my own and my family’s living conditions.

The only thing that is not clear to me is the disbursements from donors. We would have liked to have better insight so that we know how the donor support is used,” concludes Rajab. (Text and photo: Kizito Makoye)

.....
 43 Norad 2009, “End Review of Sustainable Agricultural Program in Tigray 2007–08”

hoods for the population living in the vicinity of the park.

Since 2007, both crop harvests and local household incomes have increased as a result of a rural development model called Community Markets for Conservation. The Wildlife Conservation Society has developed and tested this model, which includes training and guidance in the use of various agricultural methods, with particular emphasis on conservation farming. Participants in the project receive guaranteed prices for their products, provided that they make a constructive contribution to conserving the natural resources in the area. Through the establishment of Community Trading Centres, a range of products are processed before being sent to markets in Lusaka and elsewhere. Support from Norway has totalled NOK 28.3 million.

The programme has made a positive contribution towards developing livelihoods for the local population and had documentable beneficial effects on the natural environment in the valley. A variety of products, such as rice, honey, peanut butter and maize flour, are sold under the "It's Wild" brand. Products are also sold locally to a number of tourist facilities in and around the national park. The living conditions of the close to 40,000 smallholders who currently participate in the programme have also improved very significantly. Household incomes have gradually increased during the programme period. In 2001, monthly household incomes averaged around NOK 205, in 2006 the income level had increased to NOK 745, and to NOK 875 in 2008. By changing their methods of farming, among other things by composting, the smallholders involved increased their harvests by 15 per cent between the start of the programme and 2008.

Another important result is that over 48,000 snares and 1,800 weapons have been turned in by former poachers. Around 700 of the programme participants used to be active poachers, and there is much to indicate that most of them now have different, often better, sources of income than illegal sales of poached game. Consequently, poaching has been reduced and the number of wild animals has stabilised and in some cases increased. It is estimated that the programme

prevents some 5,000 animals from being shot or snared each year.

.....
**Increased productivity,
 but inadequate market access**

The UN specialised agency, the International Fund for Agricultural Development (IFAD)⁴⁴, works to eradicate poverty in rural areas; where the majority of poor people live. Support is primarily concentrated on the agricultural sector and rural development, and the target group is impoverished, marginalised and vulnerable rural people, such as small-scale farmers, fishermen or microentrepreneurs. Women are usually the most disadvantaged persons in these groups. From 2005 to 2008, Norway provided well over NOK 326 million in funding for IFAD.

IFAD reports that those who have participated in their projects have increased their productivity, incomes and food security. Countries are better able to reduce rural poverty through:

- >> enabling strategic and policy frameworks that respond to the needs of the target group
- >> efficient government institutions that focus on poverty reduction
- >> strong organisations that support the rural poor
- >> increased private sector investments in rural economies
- >> enhanced capability of public authorities, non-governmental organisations and the private sector to develop and implement rural poverty reduction programmes

In the annual review of evaluations of IFAD operations in 2007⁴⁵, it was concluded that IFAD had had the greatest achievements in terms of physical assets such as latrines and potable water, as well as on improving agricultural productivity. For instance, a project in Pakistan achieved a 30 per cent rise in productivity by introducing a new type of seed. IFAD has had less suc-

cess in terms of increasing market access. Where improvements have occurred, this has largely been ascribable to road sector investments, while in general there has been insufficient focus on market opportunities.

One third of the evaluations reviewed concluded that poor, vulnerable groups are likely to have benefited less from the projects than wealthier population groups. Although the poor were the target group, results showed that land-owning households were better able to increase their surplus. It is emphasised that the evaluations on which these conclusions are based are not necessarily representative of IFAD activities.

44 IFAD's Strategic Framework 2007–2010

45 Annual Report on Results and Impact of IFAD Operations Evaluated in 2007. IFAD, 2008





SUMMARY

Support for food production currently accounts for a small share of overall Norwegian aid. This mirrors an international trend of argument that market mechanisms and private investments, rather than public management and financing, will promote more rapid development of primary industries. In the case of Africa, in particular, this approach has not proved successful, with the exception of certain niche products. Agricultural productivity has stagnated or declined in several African countries, with negative implications for poverty reduction. Africa needs a “green revolution” adapted to the continent’s social and environmental conditions.

Norway’s support for research and resource management has produced significant results. This applies particularly in the fisheries sector and illustrates the importance of long-term cooperation with countries such as Namibia, Tanzania and Vietnam.

There are more recent examples to show that applied research has facilitated better use of resources. In Sri Lanka and Nicaragua, with support from Norway, companies have begun to commercially exploit waste products from the fishing industry. In Vietnam and Thailand, Norway has supported the development of new methods of aquaculture.

The greatest challenge in large parts of Africa lies in promoting farming and animal husbandry systems that do not degrade the soil and the natural environment, while providing smallholder farmers with an adequate income for their efforts. Norwegian-funded experiments

with conservation farming have shown promising results in Zambia and Malawi. Norway supports similar initiatives in Ethiopia, where early results have been promising.

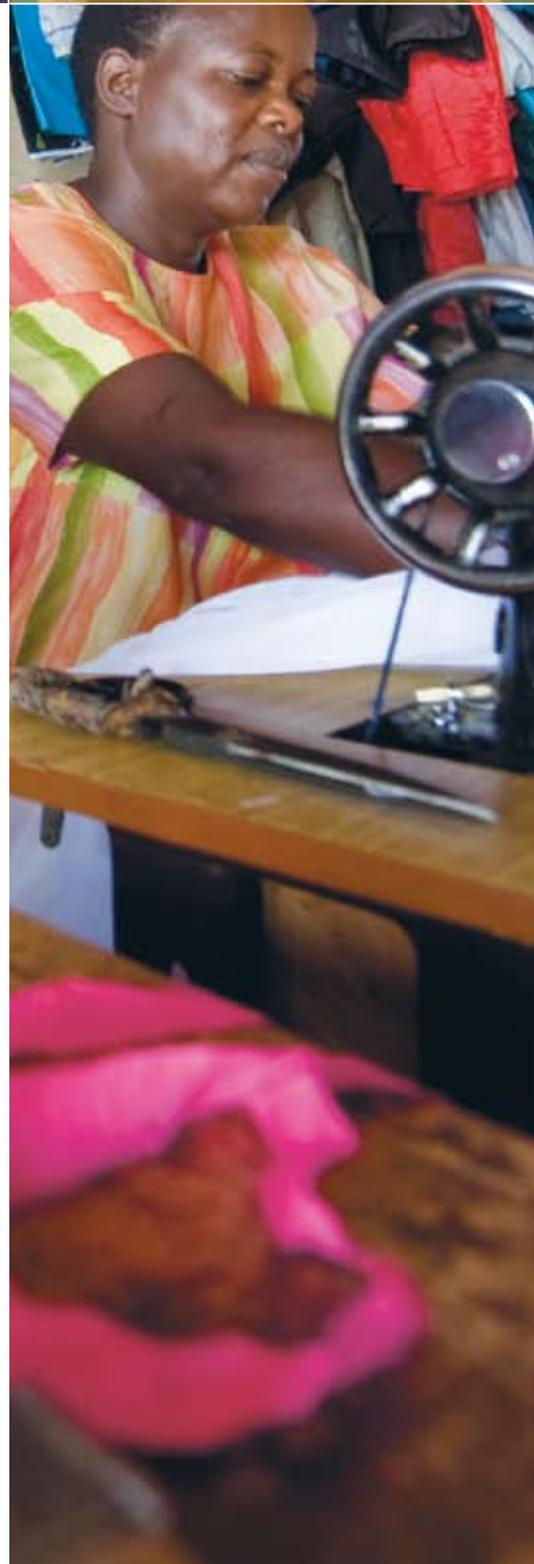
There is hope that a transition can be made to more climate-resilient, environment-friendly farming systems that are less dependent on costly inputs, but this is highly contingent on market access and farmers’ earnings. Urbanisation and general population growth are driving growing demand for food. The results achieved through Norway’s assistance for the population around the South Luangwa National Park in Zambia show that there is considerable potential for new value creation in agriculture. The average household income quadrupled in seven years.

The fact that the agricultural sector in Africa, and small-scale farmers in particular, are poorly organised poses a problem. A majority of farmers are women and developing farmers’ cooperatives is therefore also a gender equality issue. Furthermore, the continent is hampered by an inadequate rural transport network. In order to reduce poverty, income levels in primary industries must be increased. The results of Norwegian and other aid show that food security can be improved through increased public engagement, diversification of production, research and education, and local processing and storage. Achieving this goal will require an integrated focus on developing new farming systems, organising farmers to ensure better market access and developing transport networks.



PROMOTING WOMEN'S ECONOMIC EMPOWERMENT

Uganda: For a little over two years, Eva Namutebi has attended a UNIDO course in running a business. "We learn how to organise the financial and commercial operations," she explains. From left: Eva Namutebi, Sarah Nalunga and Florence Nakabugo.



Programmes targeting women have reached women entrepreneurs and women working in primary industries. Training has enhanced their capabilities and helped create new employment opportunities. This has translated into higher incomes and living standards for a large number of poor women and their families. The incomes are used to make financial investments, giving women greater self-respect. In India, close to 100,000 low-caste women have used the vocational training they have received to get a job or start their own business.

Despite the political prioritisation of this field, there is little evidence of any broader social and economic impacts of Norwegian and international aid. On the other hand, the good results that can be documented at project level underscore that both the needs and the possibilities are great.

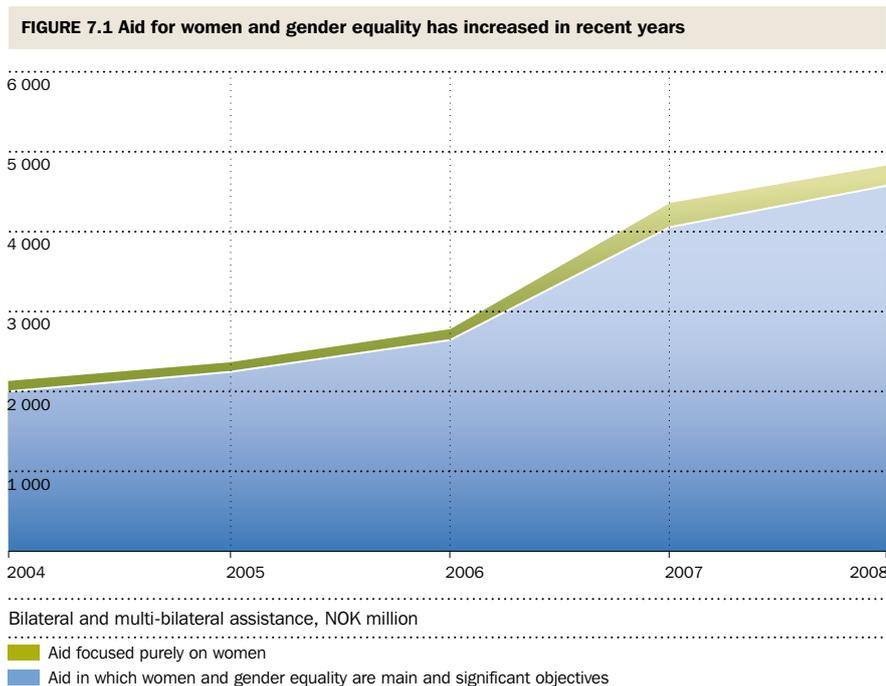
Some 70 per cent of all people living in absolute poverty are women. A focus on women's issues and gender equality must therefore be incorporated into all development assistance. New programmes have to be assessed with respect to their potential effects on gender relations, inequality and poverty. In Norway's partner countries, women score the lowest on key development indicators⁴⁶: they have the poorest access to education, health services, political participation, credit, land and employment. Moreover, economic crises and climate change trigger processes of impoverishment that impact on women and girls because they are the most vulnerable.

Studies show that when women are given the same opportunities as men to participate in the productive sectors, the increase in workforce participation boosts productivity and economic growth.⁴⁷ From a macro-economic perspective, it is beneficial when women become more economically active because it increases both consumption and savings. Studies show that investments in poor women are also investments in children's development and welfare.

Improving women's living conditions is crucial to achieving the Millennium Development Goals and many of the goals of Norwegian aid. An effective way of redressing gender inequalities is to enable women to have their own income, independent of their husband. Development assistance can help to achieve this objective by supporting measures to create income-generating work, such as training and credit access. Efforts to promote gender equality must also target changes in

46 UNDP's Gender and Development Index (GDI).

47 "Equality for Women. Where do we stand on Millennium Development Goal 3?". Buvunic, Morrison, Ofuso-Amaah and Sjöblom. The International Bank for Reconstruction and Development / World Bank. 2008.



structural conditions that marginalise women as economic actors.

Two strategies have largely been adopted in both Norwegian and international aid to reach poor women. One approach has been to integrate a gender perspective into programmes to ensure that account is taken of both women and men, while the other has been to implement programmes that target women directly. Although women have long been a policy priority, there are few verifiable results.

IMPORTANT ELEMENTS OF NORWAY'S DEVELOPMENT ASSISTANCE

Women and gender equality are one of the main pillars of Norway's development assistance policy. From 2004 to 2008, development assistance for women and gender equality increased from 22 to 31 per cent of total bilateral assistance. Total bilateral aid for women and gender equality amounted to NOK 4.8 billion in 2008. Five per cent of this support targeted women directly, while the remainder was provided for programmes and projects in which women and gender equality were subsidiary goals.

The efforts and rights of women are crucial to realising the vision enshrined in the UN Millennium Declaration. When the white paper

On Equal Terms: Women's Rights and Gender Equality in International Development Policy (Report No. 11 (2007–2008) to the Storting) was launched, the parliamentary debate reflected a broad consensus that women and gender equality must be a pivotal element of Norwegian development policy. The white paper introduced seven areas of focus for Norwegian efforts, one of which aimed at ensuring that women and men participate on equal terms in economic life. Women's economic empowerment is one of the thematic priority areas of the Ministry of Foreign Affairs' Action Plan for Women's Rights and Gender Equality in Development Cooperation.

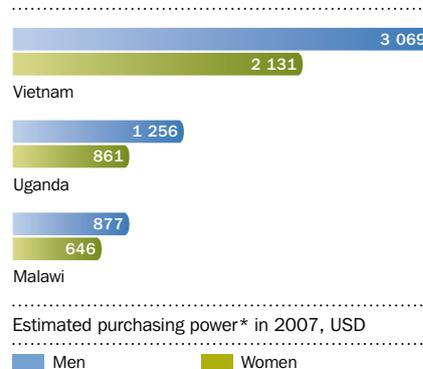
Gender equality has high political priority

The greatest gains countries can achieve, economically as well as politically, come with empowering women, ensuring equal opportunity and health care, and increasing the ratio of women's active participation in working life.

Prime Minister Jens Stoltenberg, the UN Economic and Social Council, 3 July 2006

Source: White Paper on Climate, Conflict and Capital (Report No. 13 (2008–2009) to the Storting).

FIGURE 7.2 Women generally have less purchasing power than men. Women in Vietnam have more than three times the purchasing power of women in Malawi



* Due to the lack of separate data for men and women, these are estimated amounts made by UNDP. The figures indicate purchasing power parity (PPP). Source: UNDP, Human Development Report 2009

In its multilateral assistance, Norway emphasises women and gender equality in a wide range of forums, such as board meetings. Norway also supports gender equality projects, where women's economic empowerment is one of several objectives. Norway was one of the instigators of the World Bank's preparation of an action plan titled Gender Equality as Smart Economics. The plan, which was launched in 2006, addresses women's economic rights and empowerment and women's access to the workplace. Through the action plan, support is provided for initiatives designed to bring results in the short term. These initiatives are being implemented in pilot countries and facilitated by the UN Development Fund for Women (UNIFEM). The action plan will facilitate more effective mainstreaming of the gender perspective in the World Bank's ordinary activities. Norway contributed NOK 15 million to the action plan in 2007.

CHARACTERISTICS OF GOOD RESULTS FROM AID

Promoting gender equality is largely a question of changing attitudes and norms and strengthening women's rights and capacity. The following targets are important for being able to judge whether the focus on women's economic empowerment has been successful:

>> Women's economic position has been strengthened. Indicators such as workforce participation, income-generating work and a break-

TABLE 7.1 Little progress in gender equality in many of our partner countries

Country	Ranking
China	83
Gabon	84
Zambia	85
Nigeria	86
Liberia	87
Guinea	88
Ethiopia	89
Bangladesh	90
Libya	91
United Arab Emirates	92
Iraq	93
Pakistan	94
Iran	95
India	96
Chad	97
Yemen	98
Mali	99
Sierra Leone	100
Afghanistan	101
Sudan	102

Ranking of 102 countries in an index based on 12 indicators

Source: The Social Institutions and Gender Index (SIGI), OECD Development Centre 2009, <http://genderindex.org/>

down of hourly pay by gender will measure any differences and impacts over time

» Women and men have the same economic rights. This is affirmed in formal terms through legislation and in practice by the fact that women are actually able to exercise their rights. Given the established distribution of power, it will often be necessary to involve men in order to be able to achieve economic equality in practice.

Gender equality is a goal in itself, and equal economic opportunity is a prerequisite for achieving this goal. Table 7.1 provides some indication of women's situation in the world. The table lists the twenty countries ranked at the bottom on an index developed by the OECD Development Centre, based on 12 different

indicators. Many of Norway's main development partner countries appear in the list.

EXAMPLES OF RESULTS OF NORWEGIAN AID

Low-threshold services for low-caste women in India

Although India's caste system has been officially abolished in the Constitution, millions of people are still discriminated against every day due to their caste. This discrimination takes place openly and covertly in many local communities, the school system and at workplaces. It is estimated that 200 million Indians fall into the category of people who find themselves excluded. Women and girls from low castes are particularly exposed to this problem.

A vocational training programme, the Women's Economic Programme, was started in 1982 as part of bilateral cooperation between Norway and India. The programme combined training, production and paid employment. The target group consisted of poor low-caste women and girls from rural areas and urban slums.

The programme was fully financed by Norad from 1982 to 1986, after which India gradually increased its contribution. From 1997 onwards, the programme became part of India's five-year plan and a national programme. India was then financing 80 per cent of the programme, which operated in 30 states. In 2002, Norway withdrew from the programme after having contributed a total of NOK 153 million.

In summer 2009, Indian consultants were commissioned by Norway to trace women who had participated in training courses through the programme to find out what had happened after Norad withdrew. The consultants visited four organisations and interviewed 11 women who had received training through the programme.

In the course of the 20 years during which the programme received funding from Norway, 166,000 girls and women received vocational training in sewing, spinning, repairing electrical appliances, beauty treatment, health care, computing and processing agricultural products. Reviews of the Women's

Seamstress in Hyderabad now runs a training programme herself

Through the Women's Economic Programme, both Shahnaz and Safia were taught to sew in 2000 by the Mahila Sanatkar women's organisation. Due to poverty and the long distance they had to travel to go to school, they had dropped out of school after seventh grade and stayed at home. They met each other while learning to sew, and became close friends. After six months' training, both girls had become very proficient and began to work as seamstresses on a piecework basis. After working as seamstresses for four years, they began to provide training for poor girls and women in the neighbourhood. In June 2009 they were teaching 20 girls, each of whom had to pay 1000 rupees for the sewing course.

The two friends have bought a plot of land where they plan to build a small room that they can use for their sewing courses. They have encountered a great deal of opposition to this plan from their brothers. Shahnaz and Safia claim that men are not comfortable with successful, independent women.

Economic Programme⁴⁸ have estimated that 60 per cent of the women found employment or started their own businesses after completing their training. In the state of Andhra Pradesh, consultants found that the careers of women who had taken popular courses such as computing and beauty treatment had developed positively. Some beauticians had started out as assistants for other people, but had opened their own beauty parlours in the course of a few years. Several of the women who received training in embroidery and sewing had established their own training centres. Another trend was that women had reinvested their earnings in new and better equipment to be able to increase their revenues. The desire to earn more money had also motivated them to enrol in advanced training programmes.

⁴⁸ Joint Review Women's Economic Programme Phase II, Commissioned by Gol and Norad, 2000

Those who have found jobs earn between NOK 130 and 800 per month. While this is a low income, it is a valuable supplement to the household budget. By comparison, a skilled male worker in New Delhi earns the equivalent of NOK 700 per month.

Experience and income can bring woman her own salon in Hydrabad

Sukanya K from Hydrabad in Andhra Pradesh attended a course in beauty care in 1997 when she was 17 years old. She was very competent, and was offered a job as a teacher in a training centre run by her home district. She has been teaching ever since and enjoys it. She now has ambitions of starting her own salon. She says that the training enabled her to show her family that she was independent and capable of earning her own income. After gaining more self-confidence, she also encouraged other neighbourhood girls and friends to enrol in a training course. Those who did so have jobs today.

Another result of the training is that the women joined women's collectives and self-help groups. Affiliation with these groups gave the women access to financial support and bank loans which enabled them to expand their economic activities. Many women who received training became more self-confident and gained greater faith in their own abilities, among other things daring to speak up at gatherings for the first time.

The programme also had positive impacts for non-governmental organisations. The NGOs were able to contact more poor, low-caste women and recruited many of them to their organisations, so that they in turn could train other poor women.

Grameen Bank – from microcredit to social industry

Norway played an important role in the start-up of Grameen Bank and helped in building up the organisation to what it is today. Grameen Bank is usually associated with microcredit, but the Grameen Bank Family of Companies consists of 25 companies operating in such diverse sectors as telecommunications, pro-

duction of yoghurt, bottled water and cheap mosquito nets, and information technology.

The goal of these companies is to manufacture products that poor people can afford to buy and take part in producing. Production must be ethically and environmentally sound. The businesses that are established must have a social focus. Many of the companies provide jobs and opportunities for poor women. Foreign companies that invest must be repaid their investments, but no profit is paid.

One of the most successful organisations under the Grameen Bank umbrella is the Grameen Shakti energy company, which was started in 1996. Grameen Shakti works to promote, develop and distribute renewable energy technologies in rural areas, in the form of solar panels, heat-efficient stoves, biogas and wind energy.

Since 1996, Grameen Shakti has established 45 technology centres and 750 offices throughout the country. The company has employed around 5,000 engineers, of whom 150 are women. The women engineers run the centres and train local women to become technicians. After 15 days of training, they become certified technicians. As of May 2009, Grameen Shakti had trained a total of 3,000 technicians. Women technicians learn to install and service equipment in villages, as well as to make small lamps and cellular phone chargers. There are 44 million cellular phone subscribers in Bangladesh. A woman technician who works part-time earns NOK 70–120 per month.

As of May 2009, 239,000 solar panels had been installed in homes, schools, companies and institutions in rural areas. Many people use the electricity generated by the solar panel to establish new income-generating activities: local community TVs, recharging of cellular phones, sale of electricity to neighbours, etc. Small shops that repair radios, TVs and cellular phones have opened up. Grameen Shakti aims to install one million solar panels by 2012.

Insufficient credit for women in Ethiopia

With support from The Development Fund (a Norwegian NGO), the Women's Association of Tigray implemented a project to pro-

vide microcredit to women. The purpose of the project was to promote women's economic empowerment, and to improve food security. The project is a continuation of earlier cooperation with The Development Fund. The budget for 2007 and 2008 was NOK 1 million.

An evaluation⁴⁹ of the project shows varying results. As of June 2008, 559 women had received training in how to run a professional, profitable business. Access to credit has enabled the women who took part in the training programme to start up activities such as small-scale trading, goat and sheep husbandry and dairy operations. Some of the women were able both to expand their operations and to purchase TVs and cellular phones. Due to a rise in the prices of goods during the project period, the credit that was provided was insufficient for the women to be able to expand their businesses to any great extent.

There was little focus on links between the project and market access and the Association did not have the capacity to follow the women up once they had completed the training programme. Although the women learned to take greater risks in their business activities, there was a general lack of ideas as to what kinds of business might be profitable.

Although there are examples of credit enabling some of the women to improve their food security, the project did not contribute to any significant improvement in the living conditions of the women and their families.

Income-generating courses for women smallholder farmers in Uganda

Farming accounts for 71 per cent of employment in Uganda. A total of 58 per cent of the 7.3 million who are engaged in agriculture are women.

From 2005 to 2008, the UN Organisation for Industrial Development (UNIDO) implemented a programme in partnership with the Ugandan authorities in 15 districts to pro-

⁴⁹ "End Review of Sustainable Agricultural Program in Tigray National Regional State Implemented by Development Fund in Partnership with the Relief Society of Tigray (REST) Women's Association of Tigray (WAT)". Bezabih Emana and Girma Gebermedhin. Norad Collected Reviews 1/2009.

Wife's knowledge produced food and schooling

Elleman Mumba (46) is a smallholder farmer in Shimabala, Zambia, who began to use conservation farming methods in 1997. He is married and has six children.

"The Programme against Malnutrition taught my wife about conservation farming. When she came back, she shared her skills with me and then I started to put them into practice," says Mumba.

"Due to this method of farming, we had a good harvest in 1998. We traded 34 sacks of maize for a breeding bull and a heifer, as well as two castrated bulls, from a commercial farmer, and that left me with 27 sacks for my own use. I listened to my wife and we've never looked back since."

Mumba remembers how they used to dig up the whole field and nonetheless had a smaller harvest before they started to use conservation farming methods. "We worked more and ended up with less. Since we began to apply conservation farming methods, my family has never experienced hunger. Even in times of drought, I have enough for my family and to sell to others," he relates.

Mumba has one hectare of land on which he primarily grows maize, groundnuts, beans and peas. He also practices agroforestry. "These trees are very important because the price of chemical fertiliser is so high. When the leaves fall they make the soil fertile," says Mumba, who is proud of everything he has achieved. "Three children have completed lower secondary school, and the youngest child is now in ninth grade. I have no problem spending the income I earn on their schooling. And I have plenty of food. I have more than three meals a day." (Text: Newton Sibanda)

vide support for processing and adding value to agricultural products. Norway contributed NOK 23 million in funding for the programme, covering 46 per cent of the programme budget. Norway supported four programme components: food quality, training of master craftswomen, clean production and support for the textile industry. The programme had a clear focus on reducing poverty and aimed to help improve women's living conditions.

The results of these efforts are described in the final evaluation of the programme carried out in 2009:

- » During the programme period, women have received assistance to improve the quality of the food products they sell
- » 22 pilot centres have been established for processing agricultural products: four for dried fruit, twelve for honey and six for fruit and vegetables
- » 200 persons, including 120 women, have been trained as master craftsmen/craftswomen. They have in turn trained 2,000

persons, of whom 1,200 are women, who are to serve as a good example in disseminating this know-how

- » The programme has spread valuable knowledge and training, which has in turn led to the creation of new jobs and income-generating employment

In June 2009, a consultant was commissioned by Norad to visit two pilot centres for food processing, Flona Commodities Limited and the Envalert Uganda Fruit Drying Plant. Under the UNIDO programme, women learned how to supply organically produced, high-quality raw materials on a contractual basis. The companies carry out further processing and pack the products for the export market. Flona works with 320 farmers, 90 per cent of whom are women. Envalert works with three women's groups who have 54 members who supply fruit for processing by the company.

The consultant interviewed 30 women farmers about the training they had received through the programme. The women main-

tained that the knowledge they had gained about production of high-quality, organic products, accounting and water and environmental management techniques was particularly useful. One woman thought that she would be able to climb out of poverty with the help of modern farming methods. She had earned around NOK 2,300 from the fruit that she had sold to Flona. Another woman related that she had been able to pay her children's school fees from what she earned on the organic products.

The consultant concluded that the women have generally benefited from the food component of the UNIDO programme. Fruit drying is a viable economic activity. For the pilot centres for dried fruit to succeed, capital is needed to enable them to continue to train more women farmers. This will secure larger supplies of raw materials for the company, thereby enabling it to increase production.

Signs of results from the World Bank's action plan

The purpose of the World Bank Group Gender Action Plan is to advance women's economic empowerment by making markets accessible to women and equipping women to compete in these markets. The action plan runs from 2007 to 2009. Funding has so far been granted for a total of 149 interventions in the business, employment, infrastructure and agricultural sectors⁵⁰.

It will take several years to see the final results of this action plan. According to the World Bank's progress report, some of the results of this focus are nonetheless starting to become apparent. This applies both to projects that specifically target women and the mainstreaming of gender issues in the Bank's current projects. The following two examples illustrate some preliminary results:

- » As a result of an electrification project in 20 pilot villages in Laos, the number of households with access to electricity increased from 78 to 95 per cent.

⁵⁰ "Gender Equality as Smart Economics: World Bank Group Gender Action Plan. Two-Year Progress Report (January 2007 – January 2009)", April 24, 2009.

» The Egyptian company, Olympic Group, which has more than 7,500 employees in Egypt, Saudi Arabia and Sudan, drew up an action plan dedicated to promote gender equality. An internal campaign was initiated which included measures to promote equal promotion opportunities and equal pay. The company can now point to an improved employer image, a higher percentage of women employees, greater job satisfaction among

employees, and enhanced innovation and creativity. Its ambition is to achieve special gender equality certification.

The World Bank points out that implementation of the action plan poses several challenges. Among other things, the time frame of two years is considered too short to achieve any particular socio-economic effects.

SUMMARY

A growing proportion of Norwegian development assistance has a gender perspective. Empowering women and promoting gender equality are among the goals of almost one third of projects and programmes. Only a small portion of aid targets women directly. For Norway, gender equality is primarily a question of promoting fundamental human rights. The fact that empowering women will help to achieve other development goals, such as poverty reduction and economic development, is a supplementary argument.

Experience from Norwegian aid in India and Bangladesh shows that there is considerable economic potential in giving women access to vocational training, both for the woman herself and her family, and for companies. There are many

examples of how difficult and time-consuming it can be for women to find new ways of earning an income. Training and access to loans are often not enough, as The Development Fund's work in Ethiopia shows.

Although a growing number of aid projects claim to have a gender perspective, it has been difficult to find verifiable results due to clearer incorporation of this perspective at the planning stage. There is a need for improved follow-up, in the fields of economic infrastructure, private sector development and food production, of ways in which development assistance can help to strengthen women's role in economic development.



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