



# Development Today

December 20, 2006

Nordic Outlook on Development Assistance, Business & the Environment

Vol XVI – No 20  
ISSN 0803-6209

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## A permanent solution for the Finnish aid level

Opinion

## Danish Development Minister Tørnæs snubs OECD over aid tying

■ ■ In spite of a warning from the OECD and complaints from Belgium and the Netherlands, Danish Development Minister Ulla Tørnæs refuses to back down over Denmark's policy to tie mixed credits for least developed countries.

■ ■ Denmark has done more to untie its aid than any other donor, she claims. She tells the OECD to take a look instead at whether other OECD countries are living up to their promises on aid untying.

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## Swedish NGOs face cuts. MS, Ibis reach fundraising targets for 2007

NGOs in the two Nordic countries with non-Socialist governments are feeling the funding crunch. The Swedish NGO budget for 2007 has been frozen and the government has introduced a new fundraising requirement on information activities.

The big cuts in Denmark came some years ago. But this year, the NGOs were required to raise 5% of their Danida grants from the public. MS and Ibis appear to have managed.

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EDITORIAL

## Locking horns with DAC

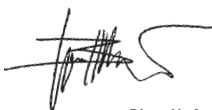
**Denmark's Development Minister Ulla Tørnæs** now officially backs the Danish violation of the 2001 OECD untying agreement. Denmark will continue to tie its mixed credits to Danish registered firms, calling mixed credits a "corner" of Danish aid.

In bilateral aid, mixed credits have been the most controversial export tool. When Tørnæs now chooses to lock horns with the OECD, it is in a matter she is bound to lose sooner or later. The Danes' reservation on untying aid, based on its high 2001 aid level, is not worth much anymore as the government has since then cut aid by more than 20 per cent.

An important reason for untying is to make aid more efficient; another is to secure a level playing field in the market place. A small country cannot expect special treatment.

The OECD might not have effective measures other than peer pressure to stop the Danish practice. However, it is very likely that Denmark is also violating EU procurement law.

In a recent letter to the EU concerning untying, Tørnæs urges the **Internal Market Commissioner** to monitor the record of other EU member states. Maybe the Commissioner should put Denmark at the top of his priority list.



Bjørn H. Amland  
EDITOR-IN-CHIEF

Broad similarities in aid policy

## A Nordic political curiosity

**For all the political differences they may have on domestic issues, the governments in Sweden and Norway think alike in many key areas of international aid politics.**

□ This was confirmed at a first meeting in **Stockholm** last week between Norwegian **Development Minister Erik Solheim** and the new Swedish **Development Minister Gunilla Carlsson**.

During the past year changes in government in **Sweden** and **Norway** have resulted in a swing of the political pendulum in opposite directions. After a decade in power, **Göran Persson's Social Democrats** lost power this autumn to the four-party **Alliance for Sweden** led by the conservative **Moderates**; in **Norway**, **Kjell Magne Bondevik's** Center-Right coalition was last year replaced by a Red-Green administration headed by Norwegian **Labour**. Solheim comes from the more radical **Social Left Party**.

Yet Carlsson and Solheim discovered that they think alike on many important issues related to aid.

Foremost among these is the role of women in development cooperation. This includes women's rights and empowerment, gender equality, as well as sexual and reproductive health and rights - an area where both countries are major global donors.

A symbolic result of their first meeting was a decision to strengthen the cooperation between Norwegian and Swedish officials on

gender and the role of women.

It is emphasised that the idea is not to establish a working group based on individuals, but rather to better integrate ongoing work in this area in the two countries.

Other areas of shared concern include:

- Energy and environment. It is hoped that through closer cooperation, the combined Norwegian/Swedish voice can be strengthened in international meetings. Joint projects or programmes may also be considered.

- Fighting corruption. The two ministers share similar views on the issue. In the area of budget support, Carlsson was especially interested in the methodology used by the Norwegians in controlling how funds are spent in recipient countries.

- Nominations. The ministers agreed to support each other's countries' nominations to **UN**, **Bretton Woods** and other multilateral bodies. Sweden and Norway will continue the current practice of handling aid funds on each other's behalf through embassies in various recipient countries.

- It was noted, moreover, that Sweden can act as a bridge into the EU system on behalf of Norway, which is not an EU member.

"It struck us that we have a Centre Right government in Sweden and a Centre Left government in Norway. And yet we are thinking absolutely the same in many areas. This makes it even better to work together in the international arena because it is not a conservative or a socialist agenda. It's a progressive agenda," says **Torbjørn Urfjell**, Solheim's **Political Advisor**. ■

## 'Swedish aid must not continue by default'

□ In a recent speech at **International IDEA** in **Stockholm**, Swedish **Development Minister Gunilla Carlsson** argued for a tougher, more critical approach to development assistance, while maintaining the same poverty alleviation goals.

"It is quite clear to me that in many respects Swedish development cooperation will have to change ... we cannot continue by default as we have done in the past."

As an increasing share of total aid is provided through budget support donors will often find themselves in "difficult and sometimes sensitive discussions" with recipient country governments about respect for human rights and governance. Some might find this awkward, Carlsson says. But she urges donors not to shy away from demands regarding respect for human rights, democracy and open societies. Partnership

with developing countries should be characterised by "openness and frankness".

The Centre-Right government has promised to maintain the 1 per cent of GNI aid level in **Sweden**. But the Minister noted that in the past the focus on the volumes of aid has tended to distract from the issue of the content and quality of aid.

Carlsson declared, as she has often done in the past couple of months, that the number of recipient countries must be reduced. She also pointed to the key role of fighting corruption and promoting the role of women.

In conclusion, the Minister called for a critical examination of the track record of development cooperation over the past half-century.

"The history of foreign aid cannot be considered solely a success story," she said. ■

Prepare for belt tightening

## Swedish NGOs face 10% fundraising requirement on information

**As of 2007, Swedish NGOs will have to raise 10 per cent of their Sida grants for information work on development cooperation themselves.**

**This is part of the new government's belt tightening in the NGO sector.**

The new demand is "unfair" and will "strangle" the flow of information, according to the NGOs.

Previously, there existed a 10 per cent fundraising demand on NGO grants for development work only, while funding of NGO information activities was 100 per cent state-supported. According to the **Swedish International Development Cooperation Agency (Sida)**, the new demand removes the exception that had been in place for information work.

**Håkan Löndahl**, Head of the **LO/TCO Secretariat of International Trade Union Development Cooperation Office**, says it is unbelievable that **Development Minister Gunilla Carlsson** would introduce such a demand two weeks before the end of the year.

In addition to the new fundraising requirement, the trade union's aid agency has received indications that of the SEK 22 million

it had requested for its information work, it will receive SEK 17 million.

"It is not fair of her to behave in this way. I don't understand it at all. When we planned our activities and made our budgets this autumn, we had no knowledge of the self-financing requirement. We don't know how we can run an information programme this way. I'm afraid there will be big problems," he says.

Löndahl stresses that NGO information work on development cooperation is especially valuable because of the organisations' broad membership bases.

"We can run an information programme that is impossible for Sida to do because we have access to our individual members," Löndahl says to *Development Today*.

**Head of Development Cooperation at the Olof Palme Centre Birgitta Silén** suggests that affecting public opinion may be exactly what the new government is aiming for:

"The new government wants to make it more difficult for us to do our information work," says Silén. "The first step in this process is to strangle the flow of information about development cooperation to the Swedish public; to make them less interested in development issues and therefore less supportive."

The information fundraising requirement comes on the tails of the decision to freeze NGO funding at the 2006 level. (See *DT 19/06*) NGOs like **Diakonia**, the Olof Palme Centre and LO/TCO, which had not yet signed agreements with Sida for next year, are facing significant cuts in their overall Sida grants compared with levels that had been indicated earlier.

Palme Centre had drawn up a budget for 2007 based on signals from Sida that the grant would increase by 6-10 per cent. If there is no increase, the centre's Sida grant will remain at SEK 85 million. Löndahl is bracing for a SEK 30 million gap between money applied for and the amount LO/TCO will likely receive.

Diakonia had applied for a 10-12 per cent increase on its 2006 funding level, based on indications from Sida. The NGO has been informed that it will receive a SEK 1.2 million increase on the SEK 110.7 million received this year; nevertheless, some SEK 10 million less than it had expected.

"There is increased discussion about the effectiveness of NGOs. We welcome that the government looks into our effectiveness, but at the same time, they must put the same demands on all other actors working in aid," says **Bo Forsberg, Secretary General of Diakonia** to *DT*. ■

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Despite unspent funds

## Finnish Ministry aims to expand NGO funding

**New NGO development cooperation guidelines published by the Finnish Ministry for Foreign Affairs aim to ensure that planned steep increases in NGO funding are used effectively. Preparations are also to begin for the outsourcing of project administration.**

□ “NGOs play an important role in implementing development cooperation through their diverse activities. The idea behind these new NGO guidelines is to help organisations improve the quality and effectiveness of their work,” said **Minister of Foreign Trade and Development Paula Lehtomäki**.

“One important feature of the guidelines is improved project funding opportunities for smaller and medium-sized NGOs, together with lighter funding application and project reporting procedures.”

Smaller NGOs have complained that the Ministry’s 11 major partner organisations have been given an excessively large slice of the cake recently, but the Ministry now intends to direct a minimum of 30 per cent of annual NGO funding to other organisations. Small and medium-sized NGOs only received 23 per cent of the Ministry’s NGO funding in 2006.

“But we still expect NGOs to build up their capacity to ensure they can use the funding effectively, and their applications must fully meet our quality criteria. We owe this to the taxpayers,” said Lehtomäki.

### MORE FLOWERS BLOOM

“Over the years we’ve perhaps gone away from the earlier idea of ‘letting all flowers bloom’, but this has been because our partnership organisations have the strong capacity and professional administration necessary to absorb funding. Low capacity has often been a problem for smaller NGOs,” says Lehtomäki.

To be eligible for future project funding, NGOs will usually need to have at least 30 members, and have been registered for two years. They must normally raise a minimum of 15 per cent of funding for each project themselves - half of which may consist of voluntary work. Cooperation among NGOs is encouraged.

New NGO project funding amounting to almost EUR 20 million to be spread over the next three years

has been announced - 33 per cent more than last year. Almost three-quarters of the applications submitted by the deadline earlier this year were approved.

### OUTSOURCING ON THE CARDS

The guidelines also state that the Ministry intends to outsource the administration of smaller-scale projects, including application, monitoring and reporting procedures. According to the **Head of the Ministry’s NGO Unit Leo Olasvirta, Finland** aims to adopt a similar model to **Sweden** (where this role is filled by **Forum Syd**), but the establishment of a new organisation to do the job would be undesirable.

The most likely candidate for the task is thought to be the NGO umbrella organisation **KEPA**, whose resources would need to be duly expanded and redirected. The new guidelines already promise to strengthen **KEPA**’s training, advisory and liaison services.

**KEPA** has been preparing its stance on the proposed outsourcing, after conferring with **Forum Syd**.

The guidelines also promise more support for **Kehys**, the advisory organisation for Finnish NGOs seeking financial support from the **European Commission**.

**Tuovi Tolonen**, **KEPA**’s member organisation coordinator, expressed satisfaction at the level of involvement of NGOs in the drafting of the new guidelines. “But it remains to be seen

how the ideas in the guidelines will be put into practice, especially the easier funding application procedures, quality criteria, and the selection criteria for future partnership agreements,” said **Tolonen**.

Many organisations would be keen to enter into such longer-term partnerships, but the Ministry is reluctant to expand its longer-term commitments by adding major new partnership programmes, and also stresses that existing partnerships will continue to be regularly reviewed.

### SHARING A GROWING PIE

This year total NGO support has amounted to EUR 55 million, of an originally budgeted EUR 67 million. Of this, EUR 34 million went to partner organisations’ programmes, EUR 11 million to project support for other NGOs, EUR 5 million to **KEPA** and EUR 3 million to foundations.

According to next year’s budget, the NGO pie should swell to EUR 75 million, even though in the last two years the Ministry has ultimately failed to use all the funds earmarked for NGOs, blaming organisations’ poor capacity to absorb steep funding rises. The NGOs now hope that the new guidelines will make the whole application process easier for smaller projects, and that outsourcing project administration could speed up the whole funding processes. ■

## Jan Eliasson appointed UN envoy on Darfur

□ **UN Secretary General Kofi Annan** has appointed former Swedish **Foreign Minister Jan Eliasson** a **Special Envoy** on the **Darfur** crisis. Annan’s appointment came after consultations with **Secretary General-designate Ban Ki-Moon**.

Eliasson has a long diplomatic career in the UN and was **UN General Assembly President** earlier this year. Eliasson’s task is to re-energise the international political process on **Darfur**.

At a press conference in **New York**, Annan said that Eliasson is mainly to “work the diplomatic channels”, especially outside **Sudan**, to encourage governments in their

home capitals to remain engaged on the issue.

It is also expected that a new **Secretary General’s Special Representative for Sudan** will be appointed soon to replace **Jan Pronk of the Netherlands**.

Annan and Ban recently met with representatives of the five permanent members of the **Security Council** to discuss the deteriorating situation inside **Darfur** where there has been fighting since 2003.

More than 200,000 people have been killed and 2 million others displaced from their homes. The UN estimates that 4 million people depend on humanitarian aid in **Darfur**. ■

High marks for ILO's own offices

## MOPAN study highlights dilemma of UN reform

**The third MOPAN study puts the spotlight on the dilemma of making UN agencies more effective by pooling their resources at country level.**

**The survey shows that ILO receives much better marks from donors in countries where it has its own offices. The UN reform panel proposed that UN agencies operate from a common UN office in developing countries.**

□ Last month a UN reform panel co-chaired by Norwegian **Prime Minister Jens Stoltenberg** launched a proposal for UN reform. The main message was that the UN's work is often "too fragmented and weak" and that the UN system should "deliver as one" at country level. The UN should act as one unit with one boss and iron out individual agencies' profiling in the field.

The last annual MOPAN survey, which was released last week, illustrates this dilemma for a specialised UN agency like the **International Labour Organization (ILO)**. (See Box) The survey is based on reporting from nine like-minded donor countries' staff in the field. It reflects donors' perceptions of the performance of multilateral organisations at country level.

### LOCAL VISIBILITY

The survey, which is based on reports from ten recipient countries, shows that donors give ILO the best marks in countries where it has its own offices. The knowledge of ILO is strongly linked to the strength and visibility of ILO's country presence. ILO has country offices in all four Asian countries (**Nepal, Pakistan, Sri Lanka, Indonesia**) covered by the survey, while ILO's presence in four African countries is in most cases limited to individual projects and periodic missions.

The MOPAN report states that "the organisation's country presence has a direct bearing on its partnership behaviour: the MOPAN country teams in Asia have a more favourable perception of ILO partnership performance than those in Africa".

In a response to the survey ILO states that the issue is "being seriously

considered ... as part of its forthcoming field structure review in 2007". But it also states that "at this time the ILO is not in a position to create a large number of new country offices". More cost efficient options are considered, such as local coordinators.

The study gives ILO an overall mixed review when it comes to partnership with national stakeholders and donors.

### FIELD PERFORMANCE

The purpose of the Annual MOPAN Survey has been to improve the understanding of the multilateral agencies' roles and performance in the field. It is not about actual development results achieved, but rather the agencies' behaviour in relation to national stakeholders and other donors.

The 2006 MOPAN Survey was carried out in **Burkina Faso, Colombia, Guatemala, Indonesia, Kenya, Mozambique, Nepal, Pakistan, Sri Lanka, and Uganda**. In addition to ILO, MOPAN assessed the **United Nations Children's Fund (UNICEF)** and the **Asian Development Bank (ADB)**.

UNICEF was also scrutinised by MOPAN in its first pilot study from 2003. The agency was praised for its strong involvement in the districts, broad network and cooperation with non-governmental organisations. But UNICEF was also criticised for working too much in isolation and for lack of participation in national health policies.

This year the MOPAN survey has a broader perspective beyond the health sector and UNICEF receives rather positive marks. It is described as "knowledgeable", "influential" and "determined to show results and deliver on its promises". But the report also states that "at times UNICEF is not fully sensitive to the local or to the broader development context" and "getting the job done quickly sometimes seems more important to UNICEF than investing in partnerships".

The ADB is seen as a major, if not the most important partner in Asia, according to the MOPAN report. This is credited to ADB's considerable human and financial resources and its long-standing experience.

Last year ADB approved 72 loans amounting to a total of USD 5.8

### MOPAN network:

□ MOPAN is a network of like-minded donors that shares information, carries out joint evaluations and annual surveys of multilateral organisations at country level.

The annual survey is a light and rapid exercise drawing on perceptions of MOPAN members' embassy and country office staff.

Current members in the network are:

- Austria
- Canada
- Denmark
- Finland
- The Netherlands
- Norway
- Sweden
- Switzerland
- The United Kingdom. ■

billion. In addition, ADB provided grants amounting to USD 1.2 billion and technical assistance worth USD 200 million.

### BETTER DIALOGUE

The MOPAN survey has been presented for ILO, UNICEF and ADB for comments before it was made public. **Aslak Brun Assistant Director General** at the UN Section in the Norwegian Ministry of Foreign Affairs says "it has been a very positive process".

He points out to *Development Today* that all donors make these kinds of assessments, but the MOPAN network is doing it in an open and transparent way.

"We now have a much deeper and better dialogue with the multilateral organisations involved," he says. Brun adds that the methodology of the report has improved over the years.

In its response to the study UNICEF welcomes the survey, but questions the methodology. UNICEF also suggests that the multilaterals should also complete a questionnaire "on their perception of the role of [bilateral] donors at local level. This would enable all parties to have a constructive exchange in the spirit of enhancing aid effectiveness," UNICEF states. ■

Strong Nordic support continues

## UN emergency fund nears target in first year

**The UN Central Emergency Response Fund (Cerf) is likely to near its USD 450 million funding target less than a year after its establishment.**

□ The first concrete project of the out-going **UN Secretary General Kofi Annan's UN reform work**, the **Cerf** was launched in March of this year. Its aim is to provide the **UN Humanitarian Coordinator** with the ability to respond immediately to crises without having to ask for funds donor by donor

The Cerf can also be used to support work in under-funded emergencies.

Initially, the Nordic countries and the **United Kingdom**, which had been actively discussing the creation of such a fund, provided the lion's share of the funding. Eventually other countries came on board. (See *DT 7/06*)

A total of 52 countries pledged money to the Cerf for this year, including poor nations like **Sri Lanka**, **Azerbaijan** and **Djibouti**. Their

participation is viewed as a strength of the Cerf. Total funding to 2006 reached almost USD 300 million.

As a result of a pledging meeting earlier this month, the Cerf is set to receive USD 345 million in 2007 so far. It is noteworthy that the top six donors to the fund plan to increase their contributions by more than USD 100 million altogether. **The Netherlands** and **Spain** will more than double their support to the Cerf next year. **Norway** adds USD 27 million to its 2006 contribution.

So far three major donors - **Japan**, **the United States** and **Canada** - have not announced their pledges. If their support exceeds their 2006 level, the Cerf is likely to near the target of USD 450 million.

The speed with which the Cerf came into being reflects in part the international community's confidence in **Jan Egeland**, who recently finished his term as Humanitarian Coordinator. His replacement will be appointed by the new **Secretary General Ban Ki-Moon** within the next six months. ■

### CERF PLEDGES 2006-7 (USDm):

Donor	2006	2007
United Kingdom	69.9	83.2
Norway	29.9	57.0
Netherlands	25.3	53.3
Sweden	41.1	52.0
Ireland	12.6	26.0
Spain	9.9	19.9
Denmark	8.4	8.8
Switzerland	3.9	8.4
Australia	7.6	7.9
Finland	5.2	6.7
Nordic	84.6	124.5
Canada	21.9	**
United States	10.0	**
Japan	7.5	**

**Total 47 countries\* 297.9 344.7**

\* Includes pledges and contributions.  
\*\* No pledge announced yet.

Source: OCHA.

## Erik Solheim: aid institutions should have normative role in tax haven issue

□ The Norwegian **Development Minister Erik Solheim** says he is critical of channelling funds through tax havens and that aid-financed entities should have a normative role in this issue.

Both the Norwegian aid-financed risk capital fund **Norfund** and the **World Bank's** private sector arm the **International Finance Corporation (IFC)** have defended the use of tax havens to facilitate venture funds for investing in developing countries. So-called "offshore financial centers" are "necessary" for the efficient channelling of capital to emerging markets, IFC says in a written statement to *Development Today*. (See *DT 19/06*)

Solheim says that his basic opinion of tax havens is critical, but he also notes that the term itself is misleading.

"The problem is not so much the tax issue as transparency and openness concerning financial transactions. We have to be able to follow the financial transactions and who is behind the entities involved," he says in a comment to *DT*.

"The key is to be able to follow the money."

The Minister will now discuss the matter with colleagues in the cabinet as other Norwegian investment funds also place money in entities located in tax havens. Simultaneously, Norwegian authorities recently launch an anti-corruption project focusing on the damaging role of tax havens in the fight against corruption. The project will also focus on ensuring that Norwegian aid funds are not misused, assisting recipient countries in the fight

against corruption, and supporting international efforts to combat corruption.

"I want a critical assessment, but we need more time to look into alternatives," says Solheim, who wants aid-financed institutions to play a normative role in this area.

**Special Advisor Eva Joly** at **Norad**, who will be spearheading the Norwegian anti-corruption project, points to the importance of the signal effect created by the behaviour of donors and aid institutions. ■

### Transparency International: not ready to comment

□ Following the recent attention on the tax haven issue in **Norway**, *Development Today* contacted **Transparency International** for a comment on the practice of aid institutions like the **International Finance Corporation (IFC)** of using investment funds based in tax havens.

Initially, *DT* was told that Transparency does not comment on tax issues. When pressed, we received this answer from **Public Procurement Coordinator Conny Abel**: "The **TI Secretariat** is not yet dealing with this important issue ... TI is still a fairly young and growing organisation already active in many fields. As corruption is truly present everywhere there are still many important subjects we have not yet focussed on but hope to be able to do so one day." ■

Stands by tying decision

## Danish Development Minister snubs OECD

**The OECD disputes the Danish policy of tying mixed credits to least developed countries (LDCs), and will continue to raise the issue with the Danes. In 2001, OECD donors agreed to put such contracts up for international tender.**

**Danish Development Minister Ulla Tørnæs claims that Denmark has done more to untie its aid than any other OECD country. She tells the OECD to take a look at whether other OECD countries are living up to their promises on aid untying.**

□ It was mid-September when the **Chair of the Development Assistance Committee (DAC)** at the **OECD Richard Manning** wrote a letter to the **Danish Foreign Ministry** asking for an explanation as to why **Denmark** continues to reserve mixed credit contracts in least developed countries (LDCs) for Danish registered firms. Manning made it clear that whether or not a contract is financed by a mixed credit or a pure grant has no bearing on the untying issue.

**The Netherlands and Belgium** had raised questions about the Danish practice with the DAC following publication of an article in *Development Today* that described the Danish practice. (See *DT 4/06*) While other countries are scaling back their mixed credit schemes, the Danish scheme has skyrocketed in recent years. In 2005, Denmark approved projects worth DKK 2.2 billion. All of the projects except one were financed with tied aid, which is effectively an aid-financed export subsidy.

### REJECTS DAC LETTER

Danish officials reject the letter from Manning. Denmark argues that in 2001, it made a reservation against the OECD recommendation on untying aid. However, OECD still insists the Danish practice is incompatible with the terms of the recommendation, according to **William Nicol** at the **OECD**.

Nicol tells *Development Today* in an e-mail that, in some ways, Denmark did cover itself at the time of the adoption of the 2001 recommendation by remarks made on how it would implement the recommendation.

"While Denmark's stance might thus be in line with the 'letter' of the agreement, we do not consider it to be in line with its 'spirit'," Nicol says.

Denmark's reservation was justified in reference to the effort sharing provision of the agreement and its position in relation to effort sharing

indicators. "Since 2001, the effort sharing indicators (average of all DAC members) have improved, while Denmark's performance has weakened. In this respect we feel Denmark's position is less justified and we are discussing this matter actively with them, including in connection with the upcoming Danish peer review," Nicol states.

In spite of the unusual letter from the DAC Chair in September, the matter has been kept at the officials' level within the Ministry in **Copenhagen**. When *Development Today* asked Minister Tørnæs for her comment four weeks ago she did not know about the letter.

The Minister has now given her first comment on the matter and brushes aside the OECD's concerns about Danish practice.

### OTHER CULPRITS

"Denmark has done more to untie its aid than any other OECD country," Tørnæs claims. "It is correct that there is a corner of Danish aid [mixed credits] that we have not obliged ourselves to untie completely. But even here the demand for 50 per cent Danish content in contracts has been removed, and this applies also for non-LDC countries. So it is hard to say that these deliveries are tied," she says.

Tørnæs also points out that Denmark has untied a windmill project worth almost DKK 1 billion in **Egypt**. Egypt is not an LDC country and Denmark was not obliged to do this. "I think it would be more interesting if the OECD would look into whether the practice of other OECD countries lives up to their promises on untying rather than criticising Denmark for going farther than what we have promised," she says. ■

## Integrating Norway's domestic and aid policies

□ The Norwegian government has appointed a commission to investigate the combined effects of Norwegian policies in poor countries. The commission, which consists of a diverse group of high profile individuals, is to examine how **Norway** can better contribute to the goal of poverty reduction.

The commission should provide a basis for decision making in how to balance Norwegian interests and the interests of developing countries.

Its mandate is extremely broad. Some of the themes to be examined by the commission include:

- trade policy
- industry, competition and labour market
- financial policies, both domestic and through global institutions
- migration and immigration policies
- environment, energy, fisheries
- defence, peace and security issues
- Norwegian business investments in developing countries and anti-corruption work
- health-related issues.

The commission is asked to analyse the overlap, conflicts of interest and negotiating space that exists among these various facets of Norwegian international engagement.

The commission will be headed by **Gunstein Instefjord** of **Norwegian Church Aid** and consists of about a dozen members.

They include **Arne Strand** of **Chr. Michelsens Institute**, journalist **Åsne Seierstad**, **Deputy Head of the Social Left Party Audun Lysbakken**, **Political Advisor to the Progressive Party Kristian Norheim**, **Chair of the Norwegian Society for Nature Conservation Lars Haltbrekken**, **Shahzad Rana**, **Managing Director of Sharepoint AS** and **Julie Christiansen**, former **Conservative MP**.

"We need this commission to look at all Norwegian policies in a holistic way," said **Development Minister Erik Solheim** at the commission's launch.

The Minister has given the group until September 2007 to come up with its analysis and recommendations. ■

## Common financing package

**Eksportfinans, Norad move to simplify mixed credit scheme**

**A full review of Norwegian private sector schemes in aid will be carried out next year, following five years of untied aid. A first small step is likely to be a common financing package for the untied mixed credit scheme.**

□ A mixed credit is combination of an aid-financed grant and a commercial loan often used to finance turnkey projects and capital goods in developing countries. Many donors provide a complete financing package when offering untied mixed credit financing.

The Norwegian mixed credit scheme is untied for all developing countries, not only least developed countries as required by OECD. This means there has to be international bidding for contracts. However, the Norwegian system has been cumbersome because Norway only provides the grant. Bidders have to raise a financing package, including a commercial loan and a guarantee.

**PROPOSAL FOR CHANGE**

The specialised export credit agency Eksportfinans has made a proposal that would streamline the Norwegian mixed credit scheme.

Norway should offer financing and untied guarantees when a project is being put up for tender, Jostein Djupvik at Eksportfinans says to *Development Today*.

The current system is cumbersome because companies have to compete both for the actual contract as well as for the financing. This makes projects less attractive because it is expensive to participate in such bidding. It is also more complicated to compare the offers.

Djupevik says that since the mixed credit scheme is untied, Norad should launch a competition for such financing among banks. The winner could for instance provide such loans for mixed credits at agreed terms for a five-year period.

The export credit agency also recommends an untied guarantee frame. If such a frame was in place Norway could offer the same financing terms for all bidders, including firms in developing countries.

**BEWILDERED**

According to Eksportfinans, it is a paradox that when competing for

Norwegian mixed credits it has been difficult for Norwegian firms to acquire guarantees due to the fully utilised guarantee frame in the guarantee institute, GIEK. Companies in developing countries lack national financing schemes and cannot participate. On the other hand, firms in other OECD countries are better off because they can draw on their national financing schemes.

Eksportfinans has passed its proposals to the Norwegian aid agency Norad. A year ago, Norad had raised some of these issues in a letter to the Ministry of Foreign Affairs. Norad wants changes in the guidelines for mixed credits based on the experience with untied credits so far.

Senior Advisor Tore Selvig at Norad says the Norwegian system is complicated. "We spend a lot a time explaining how the Norwegian system works," he says to *DT*. Selvig says it would be much easier if they had a system similar to the Swedish, where loan financing and untied guarantees are provided.

According to Norad's letter to the Ministry, the cumbersome system is one of several reasons that it has taken many years to launch the first projects financed by Norwegian untied credits. The tender process for the first mixed credit took two and a half years to complete.

The main problem is that Norway

puts out on tender a project that is not fully financed. Other donors "are bewildered by the [Norwegian] practice," Norad writes.

It has also caused problems in relation to the Asian Development Bank (ADB). The bank cannot be involved in the tender process of a project unless it is fully financed. As a result, Norad has to handle the tender of a project co-financed with the bank independent of and without assistance from ADB. Recipients hesitate to take advantage of the Norwegian system because it is too complicated.

Norad proposes that a loan offer from a financing institution can be part of Norwegian mixed credit proposals, but bidding companies should have the option of providing alternative financing. Norad also wants a solution to the guarantee problem, but states that this is less of a problem than the loan issue.

Senior Advisor Else Berit Eikeland at the Ministry of Foreign Affairs says to *DT* that they will look into Norad's proposal concerning a standard financing package early next year. She says the Ministry will assess all the private sector schemes in Norwegian aid in the coming year, and it will be natural to consider an untied guarantee scheme within such a context. Eikeland indicates a substantial upgrading of the private sector tools in Norwegian aid. ■

**New Norwegian mixed credits in 2006: Laos, Vietnam and Tanzania**

□ The Norwegian Agency for Development Cooperation (Norad) has approved three mixed credit projects this year. Recipients are Vietnam, Laos and Tanzania.

The projects are in the areas of water supply, electrification and drilling rigs.

The largest project is the Second Southern Provincial Rural Electrification Project in Laos. The project is co-financed with the World Bank's soft loan arm IDA and concerns a grid extension that would provide 42,000 households with electricity. The project also includes institutional support.

Total mixed credit financing amounts to USD 10 million (NOK 67 million) and Norad will provide 80 per

cent as a grant (NOK 53.6 million). The remaining amount will be financed by a commercial loan of NOK 13.4 million.

Norway has earlier financed by grant an electrification project in the Central and Northern regions, which was a tied project carried out by the Norwegian firm Jacobsen Elektro As. According to a project document from Norad, the project met "ADB's current criterion for poverty intervention, as more than 20% of the beneficiaries were poor".

Jacobsen Elektro and ABB are among possible Norwegian bidders for the current project. An international

Continues on page nine

## PROJECT NEWS

## Evaluation of Sida SE Europe urban environment aid

A comprehensive evaluation of Sida's support in the areas of urban environment and urban development in Southeast Europe is to be carried out.

The study should examine the impacts of assistance managed by the **Swedish International Development Cooperation Agency (Sida)** during the period 2000-2006 in six countries - **Albania, Bosnia Hercegovina, Kosovo, Macedonia and Montenegro** - and provide recommendations as to future cooperation in the region.

The review should assess results achieved, choice of cooperation partners, as well as areas of cooperation. The forward-looking part, based on the findings of the review, should examine the extent to which Sida can support urban and environmental development in other areas such as good governance, decentralisation and economic growth.

Sida is looking for advice about how to increase the involvement of Swedish environmental actors in the region, as state in the **Policy for Global Development**.

Swedish support in this area started in the year 2000. About 10 projects have

## BUSINESS UPDATE

## Four Danish aid consultancies among top 100 in Europe

The annual statistics of the European consultancy market, put out by **Swedish Technique and Design (STD)**, shows that four Danish consultancy firms active in the Nordic aid market rank among the top 100 consultancies in Europe.

**Rambøll** tops the Nordic list, placing No. 13 in Europe. In addition to some activity with Danida, Rambøll is a major player in the Swedish and Finnish aid markets through its subsidiaries, **Rambøll Natura** in Sweden and **Rambøll Finnconsult** in Finland.

**COWI**, which is without comparison the dominant player among private consultancy companies in Danish aid, ranks No. 20 in Europe. (See *DT 9/06*) **Carl Bro** (which was recently bought by the Dutch firm **Grontmij**) comes in at No. 30. **NIRAS** ranks No. 69.

Three Swedish aid consultancies are also major European actors. **SWECO** is ranked No. 17 and **ÅF Group** is No. 29. **Vattenfall Power Consult** (the consulting arm of the Swedish utility **Vattenfall**, which formerly went by the name of **Swedpower**) is listed as No. 97 on the top 100 European list. ■

completed and others are soon to be finalised. A total of SEK 82 million has been channelled through Sida since 2000, and for the period 2006-2009, total support worth SEK 180 million is indicated.

Environmental problems in the region result from the recent Balkan conflicts, and are aggravated by neglect and mismanagement of natural resources under the previous socialist system. Greenhouse emissions are reportedly high in spite of the low level of industrial development, and the region's ecosystems are

degraded as a result of past and present pollution.

The main aim of Swedish development cooperation with SE Europe is poverty reduction and European integration.

Questions about the tender can be submitted until **January 11, 2007**. The deadline for delivering bids is **January 22, 2007**.

The work should begin in February and be finalised no later than May 2007. 55 work days are designated with a field trip to each of the six Balkan countries. ■

## New Norwegian mixed credits in 2006 ...

Continued from page eight

consultant will be hired to assist during the implementation of the project. The appraisal document has been written by **Norconsult**.

The implementing agency in Laos is **Électricité du Laos (EdL)**. EdL was in deep financial difficulties at the beginning of this decade, but its finances have improved significantly in the past few years following a restructuring of the organisation, tariff increases and extraordinary income. EdL can for the first time comply with common financial covenants.

### HYDRO DRILLING

In **Tanzania**, Norway will finance new rigs for hydro drilling for the **Drilling and Dam Construction Agency (DDCA)**. The project cost is USD 6.6 million (NOK 43.5 million). New water rigs and drill outfit will cost USD 4.5 million, while new equipment and training amount to USD 2.1 million.

The DDCA's current drilling equipment dates back to the early 1970s and has become worn out.

The project is not viable on commercial terms. Norad has proposed a grant amounting to 60 per cent of the contract (NOK 28.6 million), while the appraisal report recommends 70 per cent. Norad has budget constraints and is reluctant to give a 70 per cent grant due to cuts in the mixed credit scheme next year.

The new equipment represents a giant technology leap concerning logistics, maintenance and training. Costs and revenue estimates in the project are considerably uncertain, according to the project document.

Norad's appraisal document is prepared by the UK-registered consultant **Tranor International Ltd**, which operates from Norway.

In **Vietnam**, Norad has approved mixed credit financing for the **Song Cong Town Water Supply Project** in **Thai Nguyen Province**.

In Song Cong, Norad is to finance rehabilitation and upgrading of a water treatment plant and rehabilitation of the water supply system. An industrial zone makes the city a potential growth area, but the unsatisfactory water supply could

hamper its development potential, according to Norad. The project is designed to increase water supply in the city and secure safe water supply for increasing industrial activities.

### WATER SUPPLY

The contract value is estimated at USD 4.8 million and Norway will provide a grant amounting to 35 per cent (NOK 9.1 million), which will also cover the guarantee premium. The contract covers material and equipment, civil works, consulting services and training. Local financing covers 30 per cent of the project.

It is a rather small project and the proposed bidding packages have to be merged to be big enough to qualify for Norad financing. The tender documents will be in accordance with Vietnam's procurement standards, but should also meet ADB standards. Norad is to approve the documents. The appraisal report has been prepared by **Norplan**.

Norad is prepared to provide training support amounting to 3 per cent of total project costs for all three projects. ■

10% target for 2007

## Danish NGOs manage to reach 5% fundraising goal for 2006

Danish development NGOs MS and Ibis report that they have during the course of the year managed to fundraise for an amount equivalent to at least 5 per cent of their Danida grants for 2006.

The organisations are optimistic that they will also be able to reach the 2007 fundraising target, which rises to 10 per cent next year.

□ Up to 2005, the four framework NGOs - MS, Ibis, Save the Children and Care - that focus on development work had received Danida grants with no requirement for contributing their own funds. While Care and Save have nevertheless had strong traditions for fundraising, MS and Ibis have relied almost entirely on state financing.

The three humanitarian organisations - Danish Red Cross, DanChurchAid and Danish Refugee Council - have had licenses to conduct a yearly door-to-door fundraising campaign. These funds have supplemented their Danida grants. (The refugee council does not receive framework funding.)

Last year the government introduced fundraising requirements across the board: a target of 5 per cent of Danida grants this year and 10 per cent next year. Licenses were extended to the four development NGOs to carry out yearly door-to-door campaigns. (See DT 18/05)

### MS SATISFIED

The last of these was conducted by MS on December 10. Some 2,000 MS volunteers campaigned on a theme of a "Christmas present for poor Africans" and collected DKK 2.6 million. This was a far better result than the joint Ibis/Care collection in August which raised a mere DKK 1.4 million. It does not, however, compare with the 2006 results of the experienced collectors. In March, DanChurchAid collected DKK 14 million, while Danish Red Cross raised DKK 23 million in October.

Peter Christiansen, Head of Campaigns and Funding at MS, says he is satisfied with the result.

"This was our first nationwide collection since the early 1960s, and we have not invested huge amounts in advertisements to attract collectors and attention to the collection. We set a moderate target of DKK 2.5 million,

### DANIDA NGO FRAMEWORK FUNDING, SELF-FINANCING TARGETS (DKKm):

	2006		2007	
	Danida grant	Self-financing target (5%)	Danida grant	Self-financing target (10%)
MS	156	4.1	156	8.2
DanChurchAid	110	5.4	110	10.8
Ibis	113	4.8	113	9.6
Danish Red Cross	66	3.0	66	6.0
Care Danmark	33	1.5	38	3.4
Save the Children	34	1.5	39	3.4

Source: Danish Foreign Ministry.

and are happy that we ended slightly over," he says.

MS relied on members and "friends of MS" as collectors and volunteers to keep down costs. Christiansen estimates that the total costs amount to DKK 6-700,000. He says MS will make this a December tradition, and hopes to make the costs lower next time.

Of the total Danida grant of DKK 156 million, DKK 82 million is spent on supporting activities in the South. The 5 per cent fundraising target is calculated out of this amount. The remainder covers the MS Development Worker Programme, administration, auditing and information expenses. MS is not expected to provide its own resources for these.

To meet the 5 per cent goal for 2006, MS must therefore raise DKK 4.1 million.

MS has also worked hard to increase membership, which now stands at some 9,000, and to raise voluntary contributions from support members. Christiansen estimates that these have brought total MS fundraising to well over DKK 5 million.

But he admits that it is has been a difficult exercise to turn MS into a fundraising organisation. "We have had to leave some old traditions behind, and this has in my opinion been a healthy exercise," he says.

One of the new approaches has been to introduce profitable activities. The very popular Global Contact programme, through which some 550 Danish youths this year travelled to the South, has earned MS DKK 1.5 million. This comes on top of the DKK 5 million raised this year, and can be included to meet the Danida target.

Christiansen is therefore certain that MS can comfortably reach the 5

per cent target this year, and he is optimistic about the future.

### IBIS ON TRACK

Ibis has had to raise DKK 4.8 million to hang on to its Danida grant of DKK 113 million. Secretary General Vagn Berthelsen tells DT that Ibis will meet this target. Like MS, Ibis has worked systematically to increase its membership, which also stands at over 9,000. Voluntary contributions from support members amount to DKK 300,000 monthly. Ibis has also received a private inheritance of DKK 7.5 million, some of which can be transferred to meet next year's 10 per cent fundraising target.

The Ibis/Care collection cost the organisations DKK 900,000, leaving them with a net result of just DKK 250,000 apiece at the end of the day. (See DT 12/06).

Still, Berthelsen insists that Ibis will be able to raise 10 per cent of its budget next year. He was one of the most outspoken critics of the 2005 decision. Now, he stresses that he is not opposed to the fundraising requirement. He resented the fact that it was introduced with such short notice.

"We could not leave the private fundraising to the humanitarian NGOs forever and were planning to increase our own fundraising before the demand was introduced. What we criticised was the fact that we have had to speed up the process so much that we have not been able to pay so much attention to all our other activities," he says.

In total, the six door-to-door collections in Denmark this year raised DKK 60 million at a cost of DKK 14 million for the organisations.

The mixed results have now led to a suggestion to make one joint nationwide collection. ■

## Finland needs a permanent solution for ODA financing

**Gunvor Kronman has a proposal for increasing the Finnish aid level once and for all: de-link development assistance financing from the annual budget negotiations. No donor has done this before, but that is no reason for Finland not to give this measure a try, she says.**

The 0.7 per cent GNI goal for the funding of development cooperation has been Finland's political goal for more than 30 years. This political commitment has been renewed by various governments throughout the years both in domestic, EU and UN contexts. The funding goal has only been met once in Finnish history - in 1991 - after which the Finnish economy plummeted into one of the deepest depressions of its history.

There were two factors that allowed for a GNI per cent of 0.8 in 1991: a considerable sum of allocations from the late 1980s were spent in 1991; and as the GNI spiralled, the calculated share of ODA became even higher. After this historic year, in the resuscitation of the national economy, development aid was one of the most severely cut items in the national budget. Between 1991 and 1994, development funds collapsed from FIM 3.76 billion to FIM 1.3 billion. The GNI share dropped from 0.8 per cent to 0.28 per cent.

The cabinet that came to office in the spring of 2003 renewed the 0.7 per cent target in its government program and in a new **Development Policy White Paper** adopted in 2004. A timetable was set for achieving the 0.7 per cent goal by 2010, although the program included the ominous phrasing "while taking into account the overall economic situation".

In recent years, Finland has enjoyed an unprecedented period of economic growth and its competitiveness is ranked as the highest in the world. This rapid recovery of the national economy has unfortunately not yet been transferred to fulfilling Finland's commitments towards the international development agenda in terms of funding. Funds allocated to development cooperation have grown in absolute terms, but the GNI share has been notably lagging behind.

The proposal of the Finnish **Ministry of Finance** for the 2007 state budget indicates an aid level of only 0.43 per cent of GNI. Compared to 2006, the

suggested increase is one one-hundredth of a per cent. A new government will start its term in the spring of 2007 and decide about the allocation of funds to development cooperation for the years 2008-2011. A convincing level of development funding with a clearly fixed timetable of how to achieve the political goal is an important part of Finland's foreign policy and its effectiveness.

The **Development Policy Committee** of Finland has stressed the importance of the government's commitment to a credible level of development funding. The new government should commit itself to the target of 0.7 per cent of GNI by designing a realistic timetable to reach it and follow through with its implementation.

The implementation of this is, however, undermined by the annual budgetary process. The budget is formed within a budget framework, which is annually agreed upon for the coming four years. This allows very little flexibility in the forming of annual budgets. Some specific appropriations that are seen as fixed funding commitments, such as the Finnish membership fee to the European Union and investments in traffic infrastructure, have been removed from the annual budgetary framework.

The Development Policy Committee has proposed that the development cooperation funds should be added to those funding commitments that are excluded from the annual political budget negotiations. One possible way of doing this would be to have a separate legal framework for development cooperation, through which development funding and international funding commitments were guaranteed. This would provide a permanent solution for Finnish ODA financing, which would enable both Finnish politicians and civil servants to focus on the core of development cooperation - providing high quality, long-lasting and effective support to our partners in the south.



**Gunvor Kronman is Chair of the Finnish Development Policy Committee.**

At present Finland has no legislative basis for its development cooperation activities, and for many years the subject has not been touched upon in Finland. The Development Policy Committee started tackling the issue from a financing perspective, but one of its findings has been that a legislative mandate for development would serve more than one purpose.

Finland has traditionally been an ODA conservative country, so the need for legislative definitions for development cooperation do not stem from the need to control aid from "ballooning"; that is, being spent on activities not related to poverty eradication. Well-known examples of aid ballooning are debt cancellation to **Nigeria** and **Iraq**, counted as ODA but not used for development cooperation purposes. In **Canada**, a bill on securing that the fight against poverty is the basis of development cooperation is currently being discussed in the **House of Commons**.

Development cooperation financing has been in place in some countries since the 1960s. Looking into the issue it has become evident that securing a level of development financing through an act of law has not yet been done in any country. However, this does not necessarily mean that a legal framework for securing development funding could not be pursued. The Development Policy Committee of Finland will continue appraising the benefits of constructing a legal basis for Finnish development cooperation and its financing.

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Development Today  
Bruksveien 17  
1390 Vollen,  
NORWAY

## Development Today

Development Today is an economically and politically independent newsletter on development assistance, business, trade and environmental affairs, published fortnightly by the company Development Today A/S.

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EUR 445-

Bank acc. no.: 5081.08.16926

Layout: Development Today AS  
Print: Copyshop, Sandvika  
ISSN: 0803-6209

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## B A C K P A G E

# NGOs back away from empowerment commission

**Norwegian NGOs including Norwegian People's Aid, Rainforest Foundation and Development Fund are downscaling their engagement in the Commission on Legal Empowerment of the Poor, arguing that it seems unlikely to have much impact.**

□ Their decision is based on an assessment of regional consultations that have been held in **Indonesia, the Philippines, Tanzania, Kenya and India** as part of the commission's work over the past few months.

According to **Elin Enge** of **Norwegian People's Aid**, representatives of Norwegian NGOs or their partners attended these hearings. In general, their conclusion is that there was minimal participation from poor people's organisations. They "either know very little about the commission or they don't trust the process and the pre-set agenda", says Enge.

In Tanzania, for example, Enge herself attended the meeting. She reports that it was convened by **Mkurabita**, the government body closely associated with former **President Benjamin M'Kapa**, who is a commission member. **Mkurabita** is hosting the Norwegian aid-financed formalisation project being carried out by the Peruvian economist **Hernando de Soto's Institute for Liberty and Democracy**. The seminar focused on four academic papers.

"It was basically middle class people speaking on behalf of the poor like we do here," she says. "We will be toning down our engagement and focusing our attention on other international institutions that are working on land rights and land reform. We fear that this commission will have quite a limited impact because of the general lack of interest and lack of active engagement by representatives of the poor themselves."

The former Norwegian government forged close ties with de Soto and established the commission with de Soto as Co-chair. The current government, which supports this group of Norwegian NGOs to monitor the commission process, has distanced itself from de Soto's thinking. Reflecting the NGO critique, **Development Minister Erik Solheim** has warned against adopting a model based purely on individual property rights and has demanded that women's, indigenous and collective rights be included into the commission's mandate.

According to commission member **Ashraf Ghani**, former **Finance Minister of Afghanistan, Norway** has succeeded in having these priorities included. The gender perspective is "absolutely essential", as well as that of vulnerable groups, landless people, minorities and indigenous people, he says.

Ghani recognises de Soto's international stature, but insists that "there are complimentary paths".

"Given the range of experience on the commission, there is no danger that anyone will uncritically adopt one single agenda," he says to *Development Today*.

As for the relationship between the Norwegian government and **ILD**, that is not the business of the commission, he says.

"This is not a de Soto commission. We have clear rules on conflict of interest. None of the commissioners can benefit from this work. We are all working on a pro-bono basis," Ghani says. ■

**NORWAY PICKS UP TAB:** *Development Today* has learned that a second consultation in connection with the **Commission on Legal Empowerment of the Poor** had to be organised in **Brazil** due to concerns that the first hearing, held in April, failed to include indigenous or land reform issues in its agenda or to invite representatives of poor people's organisations. The April meeting was convened by the institute of former **President Fernando Cardoso**, a commission member.

The Commission Secretariat in **New York** asked **UNDP Brazil** to organise the second round and the Norwegian **Foreign Ministry** picked up the bill. According to **Christina Elsner**, **Human Rights Assistant** at **UNDP Brazil**, the **Cardoso** institute is a conservative organisation, while Brazilian social movements are very politicised and left-leaning. She says **UNDP Brazil** invited the **Cardoso** institute to participate in the planning and implementation of the second meeting, but they showed no interest and did not attend the seminar. **Elsner** believes this is due to the social movement focus of the meeting. ■