NATURAL RESOURCES MANAGEMENT

STUDY TOUR TO NORWAY REPORT

19 - 24 OCTOBER 2014
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FOREWORD

The natural resources management study tour to Norway was motivated by the desire by MEFMI to address, in a practical manner, some of the challenges faced by countries in the management of natural resources abundance in the region. Over 50% of MEFMI member countries are natural resources dependent or are expecting to experience natural resources abundance in the near future. The region has emerged as one of the zones with huge deposits of natural gas following discoveries in Mozambique and Tanzania; and oil in Uganda and Kenya. The growing global demand driven by increased industrialization in countries such as China, Brazil, India, Russia and South Africa, popularly known as the BRICS is equally anticipated to propel growth of the extractive sector in the region. The availability of huge mineral wealth, is therefore, anticipated to be a major driver of economic growth and poverty reduction in the region.

The fundamental challenge is how natural resource rich countries in the region will effectively translate exhaustible natural resource wealth into sustained economic growth, poverty reduction and socio-economic development. The region has a lot to account for from past mistakes of having plenty of natural resource wealth but with its people remaining in abject poverty.

MEFMI believes that through learning from previous mistakes and capitalizing on success stories from other countries, the emerging natural resource rich countries in the region stand a better chance of avoiding potential adverse consequences of natural resource abundance.
This report presents the Norwegian success stories based on first hand experiences gathered during the study tour in Norway by senior officials from the Government of Zimbabwe and MEFMI Staff.

The Government of Norway, one of MEFMI’s long-standing financial cooperating partners and with success stories in effective management of the petroleum industry, has played an instrumental role in supporting MEFMI’s initiatives in the area of natural resources management. Some of the lessons from Norway which could be applicable in the MEFMI region include political economy of natural resources management, macroeconomic management issues, economic diversification, taxation in natural resources, income distribution and welfare enhancement. The region can also learn from Norwegian institutional and administrative pillars for handling the petroleum wealth namely; the parliament, the pension fund, the fiscal rule, the state direct financial interest, the Petroleum Directorate, National Oil Company (Statoil), wage determination and workers’ unions.

It is our sincere hope as MEFMI that the findings and recommendations in this report will provide valuable inputs to policy formulation and decision making process in the region. The Institute welcomes comments to assist further refining of the documented lessons to ensure that they are suitable and applicable to the region.

Caleb M. Fundanga
MEFMI Executive Director
ACKNOWLEDGEMENTS

This report provides lessons and recommendations on how countries within and outside the MEFMI region can use Norwegian experiences to optimize benefits from natural resource endowments while minimizing negative consequences.

MEFMI wishes to acknowledge the financial and technical support extended by the Government of Norway through the Norwegian Embassy in Zimbabwe which culminated in the successful completion of the tour. MEFMI is also grateful to the Government of Zimbabwe for participating at the highest policy level to enrich and acquire practical experiences from the study tour. Special thanks to Mr Jan Isaksen and the Chr. Michelsen Institute (CMI) for coordinating the tour and for providing background expertise and information.

The report received valuable inputs from H.E. Bård Hopland, the Ambassador of Norway to Zimbabwe, Mr. Innocent Madziva, Chief Economist from the Ministry of Finance and Economic Development, Mr. Fungai R. Chidzambga, Technical Services Officer, Zimbabwe Revenue Authority (ZIMRA), Mr. Charles Jaure, Domestic Taxes, ZIMRA and Mr. Witness Bvuma from Zimbabwe Chamber of Mines.

The findings and recommendations contained in this report remain those of the delegates who participated in the tour and do not necessarily reflect the position of the Government of Zimbabwe or MEFMI.
The Zimbabwe and MEFMI delegation with CMI officials

Front row (L-R): Mr. Evarist Mgangaluma, Mr. Simon Nyarota, Ms Gladys Siwela, Dr. Caleb Fundanga

Back row (L-R): Dr. Ottar Mæstad, (Director of CMI), Mr. Gershem Pasi, Mr. Willard Manungo, Mr. Isaac Kwesu, Mr Jan Isaksen
<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
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<tbody>
<tr>
<td>BRICS</td>
<td>Brazil, Russia, India, China and South Africa</td>
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<tr>
<td>CEIC</td>
<td>Centro de Estudos e Investigação Científica da Universidade Católica de Angola</td>
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<tr>
<td>CMI</td>
<td>Chr. Michelsen Institute</td>
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<td>EITI</td>
<td>Extractive Industries Transparency Initiative</td>
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<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>GPF</td>
<td>Government Petroleum Fund</td>
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<td>GPFG</td>
<td>Government Pension Fund Global</td>
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<tr>
<td>MEFMI</td>
<td>Macroeconomic and Financial Management Institute of Eastern and Southern Africa</td>
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<tr>
<td>NCS</td>
<td>Norwegian Continental Shelf</td>
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<td>NORAD</td>
<td>Norwegian Agency for Development Cooperation</td>
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<td>NOC</td>
<td>National Oil Company</td>
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<td>NPD</td>
<td>Norwegian Petroleum Directorate</td>
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<tr>
<td>ODA</td>
<td>Overseas Development Assistance</td>
</tr>
<tr>
<td>R&amp;D</td>
<td>Research and Development</td>
</tr>
<tr>
<td>REPOA</td>
<td>Research for Poverty Alleviation</td>
</tr>
<tr>
<td>SDFI</td>
<td>State Direct Financial Interest</td>
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<td>SSB</td>
<td>Norwegian Central Bureau of Statistics</td>
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1. OVERVIEW

1.1 Mineral Resources in Africa and MEFMI Region

The potential of Africa’s mineral resources and its possibly adverse impact on socio-economic development are among top development issues in Africa and the MEFMI\(^1\) region. In the context of on-going re-alignment in the world economy, a new scramble for Africa’s mineral wealth is unfolding at a time when the knowledge of policy makers on the economic aspects of natural resource extraction is, at best, limited and sporadic.

Given this background, and the fact that over 50% of the MEFMI member countries are natural resources dependent or are expecting to experience natural resources abundance in the near future, MEFMI Phase IV Strategic Plan (2012-2016) is geared towards enhancing natural resources management skills and policies among its member states. The Government of Norway, one of MEFMI’s financial cooperating partners and with success stories in effective management of the petroleum industry, has played an instrumental role in supporting MEFMI’s initiatives in the area of natural resources management.

On 28 May 2013, MEFMI and the Norwegian Embassy in Harare, Zimbabwe held a Discussion Forum on Natural Resources Management at the Crown Plaza Hotel in Harare. The Forum, which attracted over 60 officials from various Government ministries, departments, agencies and diplomatic missions was facilitated by Mr. Jan Isaksen, an economist and senior researcher at the Chr. Michelsen Institute.

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\(^1\)MEFMI has fourteen (14) Member States namely Angola, Botswana, Burundi, Kenya, Lesotho, Malawi, Mozambique, Namibia, Rwanda, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe.
Institute (CMI\textsuperscript{2}), Norway. The main theme of the Forum was “How Norway escaped from the natural resource curse and Dutch disease”.

As a follow up to the Discussion Forum, the Government of Norway sponsored a study tour to Norway for senior officials from the Government of Zimbabwe and MEFMI staff. The tour, which took place from 19 to 24 October 2014 was led by MEFMI Executive Director Dr. Caleb Fundanga. The Zimbabwe Government delegation comprised, the Permanent Secretary in the Ministry of Finance and Economic Development, Mr. Willard Manungo, the Commissioner General of the Zimbabwe Revenue Authority, Mr. Gershem Pasi, the Director of Economic Research at the Reserve Bank of Zimbabwe, Mr. Simon Nyarota, and the Acting Chief Executive Officer of the Chamber of Mines of Zimbabwe, Mr. Isaac Kwesu. The MEFMI Executive Director was accompanied by two officers; namely Ms Gladys Siwela, Publication and Networking Officer and Mr. Evarist Mgangaluma, Programme Officer, Natural Resources Management and Regional Integration Issues.

The main objective of the study tour was to have first-hand learning experience on how Norway, an oil and gas rich country manages its natural resources, including how the country managed to escape the natural resources curse and the Dutch Disease. The success of Norway is evident in the manner in which the country has managed to effectively translate petroleum resources into financial wealth that has gravitated to sustained economic growth, poverty reduction and socio-economic development. The study tour was also motivated by MEFMI’s focus on emerging issues of critical macroeconomic policy

\textsuperscript{2}CMI is an independent development research institute with its Head Office in Bergen, Norway. Founded in 1930, CMI is named after Norwegian Statesman (first Prime Minister) Christian Michelsen (1857-1925).
importance to the region. The Secretariat also seeks to enhance its collaboration with key institutions in Norway with hands-on expertise in natural resources management.

The study tour covered eleven (11) key institutions responsible for policy formulation and management such as the Ministry of Finance, Ministry of Foreign Affairs, Norges Bank, Norwegian Tax Administration and Statistics Norway. The tour further visited institutions responsible for development cooperation, petroleum regulatory authority, research centre, university and an international organization based in Norway with expertise in natural resource management and advocacy. In good time before the tour, participants were handed a compendium with important articles and analyses of the main fields the team set out to learn.

1.2 Organization of the Report

This report focuses on the Norway study tour and is organized in five sections. Section One is the overview, presenting the objectives of the study tour. Section Two, provides contextual analysis of Norway and the MEFMI region. Section Three is the coverage of the study tour. Section Four provides the lessons learnt and outcomes while Section Five concludes and provides the way forward.
2. CONTEXTUAL ANALYSIS

2.1 Norway

Norway has a population of about 5.2 million people. GDP growth rate was around 2% in 2013 with a GDP of about US$512 billion and GDP per capita of over US$100,000, the second highest in the world after Luxembourg (Chart 1). It is among the top ten largest gas and oil exporters in the world (Norwegian Petroleum Directorate – NPD Report, 2014).

Chart 1: Trends in GDP per Capita Income and Population of Norway (1960-2013)

Sources: Statistics Norway, Norges Bank and World Bank Database

During the late 1950s, Norway was among the least developed Nordic countries as it had been destroyed by the consequences of the World War II. Dreams of finding petroleum resources along the Norwegian Continental Shelf (NCS) were almost non-existent and the country heavily depended on fishing and ship building.
The discovery of oil in Groningen field, Holland in 1959, stimulated exploration of hydrocarbons in NCS. The first licence was awarded in 1965 and oil production started in early 1970s. A surge in oil prices (from US$3 per barrel in 1960’s to US$100 in 2005) following the war in the Middle East in 1973 and OPEC initiatives marked the beginning of realization of the oil fortune that transformed the Norwegian economy.

To-date, Norway represents countries which have successfully escaped from the adverse consequences of natural resources abundance namely the Dutch Disease and Natural Resource Curse. Dutch Disease refers to shift of resources from other tradable sectors to the natural resources sector. This will eventually result in spill-over loss, a permanent loss of capacity and technological development. Resource curse is reflected by persistent slow economic growth overtime.

Marking exceptionality from the paradox of plenty which is evident in most oil rich countries, Norway has registered stable macroeconomic performance, high per-capita
GDP growth and low inflation of around 2%. Overtime, the Norwegian Krone depreciated slightly against major currencies, implying increased competitiveness. Unemployment rate is currently estimated at 3.4%, the lowest in the European Union. Life expectancy is around 83 years for women and 79 years for men. 41% of its population has tertiary education. Inequality index (Gini Index) is below 30, among the lowest in the world (Chart 2).

Chart 2: Inequality Index (Gini Index) for Norway and MEFMI Countries

Note: Gini index of 0 represents perfect equality, while an index of 100 implies perfect inequality.
Source: World Bank Database

The petroleum industry which encompasses oil, gas and pipeline services is one of the main economic sectors in Norway. In 2013, this sector accounted for 21.5% of GDP, 30.7% of total investment and 49% of total exports. The industry employs about 250,000 people, of whom 60% are Norwegian, equivalent to 2-3% of total employment
in Norway. Over the same period, petroleum rent\(^3\) accounted for 12\% of GDP and 29.1\% of total state revenues (Norwegian Central Bureau of Statistics-SSB, 2014). Other economic sectors include fishing, ship building, fertilizers and hydropower industries.

### 2.2 MEFMI Region

The MEFMI region has about 243 million people, representing around 22\% and 26\% of the population in Africa and Sub-Saharan Africa, respectively. As at end 2013, the GDP for the region was US$191.3 billion, equivalent to 20\% of GDP in Sub-Saharan Africa and 14\% in Africa. GDP per capita was US$1,655, exceeding the Sub-Saharan Africa and Africa by 39\% and 25\%, respectively. Major economic activities are agriculture, mining, tourism and services.

The MEFMI region has emerged as one of the world’s natural resource rich zones with huge deposits of oil and natural gas. Apart from Angola, new discoveries of oil and gas are reported in Kenya, Mozambique, Tanzania and Uganda (The Oxford Institute for Energy Studies Publication, 2013). The occurrence of this significantly huge and untapped mineral wealth amid increased industrialization in countries such as China, Brazil, India, Russia and South Africa, popularly known as the BRICS is anticipated to be a major driver of development in the region through Foreign Direct Investment (FDI).

Nevertheless, inadequate experience and skills raise concerns with regards to governments’ capacity, public policy processes and reciprocal accountability among the key players in the mining sector and the absorption and sustainable use of revenue from mineral wealth.

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\(^3\)Petroleum rent = Gross Operating Surplus + Indirect Tax Paid – Total Capital Cost. Simply is the residual income when factors of production have received their normal rewards (factor payments) (SSB)
Furthermore, minerals extraction activities have adverse consequences on the environment particularly through emissions into the air and discharges to the water. Unless good policies are in place to minimize the negative externalities of the industry, the social and environmental impact of the sector will not reach its full potential.
3. COVERAGE OF THE STUDY TOUR

3.1 Background

The study tour covered eleven (11) key institutions responsible for policy formulation and management such as the Ministry of Finance, Ministry of Foreign Affairs, Central Bank, Tax Administration and Statistics Offices. The tour further visited institutions responsible for development cooperation, petroleum regulatory authority, research centre, university and an international organization based in Norway with expertise in natural resource management and advocacy.

3.2 Dinner Meeting with CMI Staff

A dinner meeting hosted by Mr. Jan Isaksen and his wife took place on 19th October 2014. It was attended by three other CMI officials namely: Professor Odd-Helge Fjeldstad, Dr. Inge Amundsen and Ms Guri K. Stegali. The meeting though informal, marked the beginning of the tour, with an exchange of information on the gist, expectations and logistics of the study tour.
With regards to the expectations of the study tour, the delegation focussed on enhancing its understanding of best practice in the management of the petroleum industry, especially on optimizing revenue generation, efficient utilization of natural resource rent and establishment of a sovereign wealth fund. Specific expectations are summarized as follows:

- Ministry of Finance and Economic Development, Zimbabwe: To learn how to enhance mining contribution to GDP and revenue generation. These experiences would feed into the Zimbabwe budget processes, going forward;

- Zimbabwe Revenue Authority: To enhance understanding of the Norwegian model on revenue optimization, managing expectations and tax compliance;

- Reserve Bank of Zimbabwe: To learn how volatility in natural resources revenue can be accommodated within fiscal and monetary policy frameworks and ensure macroeconomic stability;

- Zimbabwe Chamber of Mines: To get first-hand information on how to develop a sustainable mining industry; and

- MEFMI: To identify areas of mutual interest for capacity building in natural resources management. These include requisite tax reforms and systems, creation and management of sovereign wealth fund and policy linkages and coordination. Mentorship of MEFMI Fellows and attachments at the CMI was also among the key expectations for MEFMI.
Other issues discussed during the informal dinner meeting include general economic development in Norway, the latest information on oil and gas discoveries in Norway and across the globe including the MEFMI region (Kenya, Mozambique, Tanzania and Uganda); The role played by the Norwegian Government through its State Oil Company (Statoil) to provide training and nurture developing countries initiatives on petroleum industry; and deliberations on the downside risks such as collapse in oil prices, security threats and infrastructure challenges.

3.3 Meetings at CMI Head Office in Bergen

A visit to CMI Head Office in Bergen took place on 20th October 2014. At CMI the delegation was officially received by Dr. Ottar Mæstad, Director of CMI. On his welcome remarks, Dr. Ottar briefed the delegation on the key functions of CMI and the research projects the Institute is pursuing in the MEFMI region with Centro de Estudos e Investigação Científica da Universidade Católica de Angola (CEIC) and Tanzania Research for Poverty Alleviation (REPOA). The Director further pointed
out the critical role that is played by the Institute as anti-corruption hub through the Knowledge Services on Anticorruption Centre. The centre generates ideas that can produce good governance and best practices that are applicable to different stakeholders including the developing countries.

Further to this meeting the delegation attended three presentations that were made by CMI staff. The presentations covered the following topics:

• **The Overview on the Petroleum Industry in Norway and the Norwegian Sovereign Wealth Fund (SWF) or Government Pension Fund Global by Mr. Jan Isaksen.** This presentation focused on the evolution of the petroleum industry in Norway, how the Sovereign Wealth Fund was established, the development of institutional pillars and ten (10) oil commandments of Norway. It further looked at the socio-economic characteristics (the genes) of Norway. The key lesson was that whereas many developing countries could technically manage to set up similar pillars and systems, the success of these institutions and their sustainability would depend on the social and political basis for their existence. Although institutions and policies may be imitated, their effectiveness and sustainability would depend on how well they were suited to the specific national circumstances.

• **Dr. Ivar Kolstad made a presentation on Natural Resources, Concentration and Diversification.** This presentation was based on empirical findings

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4 The Norway ten commandments are:- National Steering; Gradual approach and Strategic Planning; Clear principles in legislation; Just and effective Petroleum Administration; Diversity in Licensees; National Participation; Government - Licensee Cooperation; Improved Oil Recoveries; Regional Optimisation; National gas Policies; and Avoiding the “Oil Curse”.
from the cross-country assessment of economic diversification by looking at export products diversity. The study observed that oil rich economies are less diversified than industrialized countries. The key lesson from this presentation was the need for authorities to think beyond trade theories of specialization. It also pointed out the need for natural resources rich countries to develop mechanisms to foster economic diversification, as over dependence on few export products may expose a country to multiple risks associated with commodity price volatility and deteriorating terms of trade. It was also argued that diversified economic activities may lead to democracy through reduced elite tensions and broad based employment options, making political activities less costly. However, diversification is not an easy policy prescription. Diversification undermines the power of elites who may then resist diversification. The possible effects of undermining by elites that benefit from current institutional dysfunctions poses a general, fundamental challenge to applying the Norwegian model to resource rich developing countries.

- **Tax and Tax Administration in Countries with Abundant Natural Resources** was presented by Professor Odd-Helge Fjeldstad. The presentation focused on the need for natural resources rich countries to have broad tax bases through nurturing the non-natural resources sectors. It was pointed out that the revenue pattern from taxation of non-natural resource sectors was more predictable than revenues from natural resource sectors. On the backdrop of this, evolution of the Norwegian tax system has been geared towards balancing tax contribution between oil and non-oil sectors. The important lesson for tax policy in natural resource rich countries is that they should not ignore developing the ‘ordinary’ tax system
and focus on the following: clear rules with few exemptions, long term stability and predictability for investors, equal treatment of companies, simplicity for both tax administration and taxpayers, openness and transparency and citizen access to information, meaningful citizen participation and engagement around tax and links between taxes paid and public service delivery.

- **Resource Abundance and Politics**, presentation by Dr. Inge Amundsen. Drawing on the Norwegian experience, the presentation assessed the political economy of the natural resource rich countries. The key message was “if not well managed easy money from natural resources rent may generate patronage, which is the use of public resources to shore up political power”. By striving to remain in power, some States may induce the use of financial resources from natural resources to buy rivals and instruments of coercion. As a result, the social contract between the government and society will be relinquished and hence deepen income inequality and poverty levels. Another
aspect that was brought out during the discussion was how to manage the diversity of motives among key players in the natural resources sector. Company motives are driven by the need to access resources, profit maximization, and cost reduction (which might indicate a willingness to pay up for gaining access to resources, reduced taxes and leniency in environment regulations). Irresponsible governments will focus at wealth accumulation and power preservation. This suggests a need to put in place measures to change drivers and incentives towards enhancing people’s welfare and overcome the costly pursuit of the rents from natural resources extraction. This includes building effective institutions, pursuing democracy and the rule of law. Success registered by Norway in this regard was partly attributable to compliance with the “democracy first theory” and establishment of strong institutions prior to oil discovery.

5The “democracy first theory” was presented as follows: “A country will be cursed only when it becomes dependent on export of natural resources before accountable and democratic state institutions are established and consolidated.
3.4 Governance of the Petroleum Sector

On 20th October 2014 the delegation flew to Stavanger City, which is the centre of the oil industry in Norway and one of Europe’s energy capitals. The topics covered in Stavanger were Good Governance, Building a Successful and Professional National Oil Company and The Role and Function of the Norwegian Petroleum Directorate (NPD).

3.4.1 Good Governance of the Petroleum Sector

The governance of the mining sector is among the major challenges which has emerged as a terrain of domestic political and policy contestation in which various national and international actors in the MEFMI region are enmeshed. Acknowledging the prevalence of governance gap in Africa; Mr. Farouk Al-Kasim, a renowned Iraq born oil geologist, CMI Consultant, and founder of the Norwegian Petroleum Directorate (NPD), pointed out that an efficient and profitable petroleum or natural resources sector needs to be integrated into the best governance system if it is to succeed. The sector needs to be compliant with legislations and must be for the service of the people, whom he stressed are the rightful owners of the mineral and any generated natural resources wealth.

The lessons learnt from the discussion with Mr. Al-Kasim were that good governance goes beyond anti-corruption, but encompasses reconciling various interests and proper coordination among key institutions. Norway’s success in the petroleum industry hinges on democratic decision making processes that are embraced and practiced by Parliament. For effective steering and over sight, the Norwegian Parliament is guided by technical expertise from line Ministries (i.e. Ministry of Petroleum and Energy,
Ministry of Climate and Environment, Ministry of Labour and Social Affair, Ministry of Transport and Communication, and Ministry of Finance). Line Ministries draw on technical and well researched advice from advisory and regulatory bodies such as the NPD, Environment Agency, Petroleum Safety Authority, Norwegian Coastal Administration, Government Pension Fund-Global and the Petroleum Tax Office. Divergent minds from the private sector, civil society and academia are also factored in the decision making process. This spirit of consultation and team work is motivated through sharing of data, information and dialogue.

Another governance model used by Norway which is relevant to the MEFMI region is the Trinity of the Stakeholders. This model inculcates collaborative and consultative spirit between citizens, the State and licensees (investors). The citizens delegate the mandate for natural resources management to the State. The State formulates resource extraction and management policies and facilitates information sharing to enhance understanding and participation by the citizens and the licensees. The State and licensees work together as partners on a win-win basis, ensure knowledge sharing and optimize returns from the natural resource activities. Licensees and citizens have built a culture of mutual cooperation and distribution of benefits (corporate social responsibility).

3.4.2 Building of the Successful and Professional National Oil Company

The success stories of the Norwegian National Oil Company (NOC) are critical to the MEFMI region as some member states attempted to build similar institutions during post-colonial era but these have failed to become functional.
Sharing his experience in building Norway’s NOC (Statoil), Mr. Martin Bekkeheien, the Executive Board Chairman of Enhanced Improved Oil Recovery (INFRA) and former Senior Vice President of Statoil Ltd pointed out that the establishment of a NOC was motivated by the need to have an organ for informing government policies and to take care of the commercial interests on behalf of the government. Factors attributable to the successful establishment of Statoil were the Government’s strong political will and, over time, the build-up of expertise on extraction of oil from complex deep water geological structures and under harsh weather conditions.

The success of Statoil was also due to its exposure to external competition which resulted in strong corporate culture; enhanced management skills; focus on technological development (R&D); and learning from the experiences of other companies under joint venture operations. Strong financial base also contributed to Statoil’s endurance to competition from other giant international petroleum companies.
Statoil was established in 1972, given responsibility for the State's ownership holdings in production licences. On 1st January 1985, Statoil's participation was split into two; a direct financial share for the State (State Direct Financial Interest-SDFI⁶) and another for Statoil. When Statoil was partially privatised on 18 June 2001, the administration of the SDFI portfolio was transferred to the state-owned trust company, PETORO.

3.4.3 Norwegian Petroleum Directorate

The Norwegian Petroleum Directorate (NPD) was established in 1972 to deal with technical control, regulatory issues and provide technical advice to the Ministry of Petroleum and Energy (MPE). Further to advisory, NPD is the national databank for the petroleum sector. Data

⁶SDFI is an arrangement where the State keeps an interest in a number of oil and gas fields. Each interest is decided when licenses are awarded, and the size of state interest varies between fields. The state pays its share of investments and cost and receives a corresponding share of the gross income from the license.
Natural resources management is a critical function to facilitate informed decision making process and for the transfer of knowledge within and outside Norway. The Directorate is governed by an independent Board of Directors, Administratively it reports to the MPE.

According to Mr. Johannes Kjøde, Deputy Director General, NPD contributes by creating the greatest value for society from the petroleum industry through prudent resource management, while safeguarding health, safety and the natural environment including climate considerations.

The Directorate has contributed significantly to the success of the petroleum sector. These include facilitating production and exploration activities in the Norwegian Continental Shelf (NCS). As at the end of December 2013, daily oil and gas production at NCS reached four (4) million barrels, of which 50% was gas and the balance was crude oil. The registered production is from 78 operating fields. Historical data shows that 40 billion barrels of oil and gas was produced for the period 1971-2014. Over the next 11 years to 2025, production is projected to
persistently increase, producing up to 70 billion barrels of oil and gas. These estimates are premised on conducive world oil prices, completion of the 13 fields that are under development, 165 fields under improved oil recovery projects and 88 new fields under evaluation.

3.5 Norwegian Oil Fund and its Role in the Economy

Unlike other natural resource rich countries, Norway did not use its natural resources wealth to pay for hefty tax cuts or social programs. Instead, the country put its money in a sovereign wealth fund (also known as Government Pension Fund Global-GPFG) for future generations. The overarching goal of the Fund is to shift from a natural resource to a financial resource rich country. Today, less than 25 years since its inception, the Fund has grown into the world’s most valuable sovereign wealth fund, worth almost US$1,000 billion, accounting for over 175% of the GDP (Chart 3).

Chart 3: Evolution of the Market Value of GPFG (in NOK Billion)

Source: Norway Ministry of Finance and Norges Banks
In his presentation on Investment Strategy and Fund performance, Mr. Bjørn Taraldsen, Senior Advisor Governance Office, Norges Bank (Investment Management), pointed out that the Investment Strategy for the Fund is based on long-term considerations of different investment choices. Good financial return over time is deemed to be contingent on a sustainable development in economic, environmental and social terms, and on well-functioning, efficient and legitimate financial markets. Taking into account risk safeguards, the Fund has invested in various instruments; portfolio private equities (61.3%), bonds (37.6%) and real estate (1.2%). Hitherto the Fund has invested in 8,000 companies worldwide; with the bulk of the investment in Europe (45%) and USA (35%). Africa and the MEFMI regions receive a very small share of the investment from the Fund (below 3%).

Chart 4: Examples of Companies in the GPFG Portfolio

Source: Norges Bank
The performance of the GPFG has been impressive; from 2004 to 2014 the nominal average annual return reached 6%. The average real return on the GPFG over the same period was around 3.8% (net of inflation and asset management costs). Rapid growth of the Fund was experienced during the post global financial crisis era, reflecting the positive development in global stock markets, inter alia, the US Federal Reserve continuing to provide liquidity to the economy (Chart 3).

3.6 Revenue from Petroleum Industry and Government Take Systems

A fundamental principle underlying the Norwegian petroleum activities is that the Norwegian people are the owners of the natural resources. The State which is the custodian delegated with responsibility of ensuring profitability, derives its revenue from petroleum resources through direct participation in the petroleum sector, returns on Statoil shares through taxation of the oil companies and through the returns on the SWF.

3.6.1 Evolution of Petroleum Tax Regime

Taxing extractive industry has been a challenge in most MEFMI member states and this has become an important topic in the region. The complexity ranges from technical skills on how the sector operates, marketing practices and corporate structures of international extractive companies.

Norwegian petroleum tax regime evolved from the royalty in the 1970s to a fully-fledged net profit based tax system. The applied corporate tax rate is 78%, of which 27% is ordinary corporate tax base for all companies and 51% additional tax base for oil companies (Chart 5 illustrates the development of tax revenue and its share of total
government revenue from the oil industry). Tax assessment is based on the norm price set by the Petroleum Price Board which is appointed by the Ministry of Petroleum and Energy. The use of norm price prevents the use of “transfer pricing” when oil and gas are sold from Norway (domestic or abroad) and ensures that the price used for tax calculations is reasonably near at the market price of oil.

Presenting on the Norwegian experience, Mr. Beat Gisler, Manager from Tax Administration Office and Ms Ine Kristiansen, Tax Expert from Oil Tax Office (OTO), noted the complexity involved in taxing the extractive sector especially the petroleum industry. Measures taken by Norway include putting in place effective tax legislations, broadening tax base; currently with 3,997,533 individual tax payers (77% of the population) and 256,800 corporations, introducing special tax on net profit for petroleum companies (currently 51%), use of norm oil price system when calculating taxable income for the tax assessment, enhancing tax audit and use of third party information, emphasizing on the quality accounting, and tough penalties.
The underlying principle of the Norwegian taxation system is an economic framework for profitable extraction of petroleum. Despite the high tax rate of 78% (ordinary and special tax) on net profit, compliance is still high. This is due to, among other things, the fact that the State bears some risks and ensures stability of the industry.

Despite having in place an effective tax framework, there are still challenges which are yet to be fully addressed. These include tax loss due to asymmetric information and transfer pricing which finds its way across the tax net due to the fact that a large part of the crude oil is traded between affiliated entities. The norm oil price system has to some extent safeguarded the State to realize its optimal tax share.

### 3.6.2 Norwegian Government Take Systems

In addition to tax revenue, the Government take is optimized through direct participation in the petroleum industry. This takes the form of direct ownership in fields and infrastructure through the State Direct Financial Interest (SDFI) and dividends from 67% ownership in Statoil. This accrues to the State a substantial portion of the super normal profit (resource rent) realised by the petroleum industry (Chart 5 illustrates the substantial portion of the total Government take generated by the SDFI).

SDFI is an arrangement in which the State owns interests in a number of oil and gas fields, pipelines and onshore facilities. The Government take is decided when production licences for oil and gas fields are awarded and the size of the State interest varies from field to field. As one of several

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7Government Take Systems refers to mechanisms put in place to accrue the State’s share of the oil and gas revenue.
owners, the State pays its share of investment and cost, and receives a corresponding share of the income from the production licence. As of January 2014 the State of Norway had direct financial interests in 179 production licences as well as interest in 15 joint ventures in pipelines and onshore facilities.

**Chart 5: Government Take System**

![Chart 5: Government Take System](image)

*Source: Norway Ministry of Finance*

Other collections from petroleum industry include the area fee and environmental taxes. The area fee is intended to help ensure that awarded acreage is explored efficiently, so that potential resources come on stream as soon as possible, within a prudent financial framework and in a manner which maximizes the lifetime of existing fields.

Environmental taxes (CO\(_2\) and NO\(_x\)) and emission permit fees are levied to safeguard Norwegian Continental Shelf from petroleum activities.
3.7 Norwegian Fiscal Policy Framework

Achieving sustainable macroeconomic stability and efficient resource allocation in the midst of strong volatile petroleum sector is the main focus of the Ministry of Finance, Norway. Analysing how this mission is effected, Mr. Tore Eriksen, Special Advisor, Ministry of Finance and former Ambassador of Norway to OECD pointed out that this is done through separating government spending from the current volatile oil and gas income and accumulation of saving.

A fiscal framework/forecast which is less dependent on petroleum revenue was established in 1973. Non-Oil budget balance (Mainland Budget Deficit) was introduced in 1986. Vehicle of saving oil money (Government Petroleum Fund-GPF) was established in 1991. The first net transfer to the
Fund was done in 1996, while the new fiscal guideline (4% fiscal rule) was adopted by the Norwegian Parliament on 29 March 2001. The 4% is the estimate of real return of the Fund made available to finance non-oil budget deficit. To underline the long term perspective of petroleum wealth management, the GPF was renamed as Government Pension Fund Global (GPFG) in 2006.

Experience with the 4% fiscal rule was reported as successful, especially in anchoring and limiting fiscal spending, sheltering Norwegian Mainland economy and managing the Fund capital. However, a task force is now working on the best use of the fiscal rule. A key issue is that in years with a high increase of the capital of the fund the allowable increase in non-oil deficit (or the opposite the variation in the 4%) will be quite dramatic. In the current budget the government will use only about 3% of the fund but still has used the biggest contribution from the fund. This suggests the need for re-looking the 4% fiscal rule.

3.8 Monetary Policy Framework

Norwegian monetary policy regime evolved from floating exchange rate in 1816 to fixed exchange rate against European Currency Union (ECU) in 1990. Currently, Norway has adopted inflation targeting and floating exchange rate regimes. Elaborating monetary policy targets, Ms Anne Berit Christiansen, the Director of International Economy, Monetary Policy at Norges Bank said that operational target of the monetary policy shall be annual inflation of close to 2.5% over time.

The long-term role of monetary policy is to provide the economy with a nominal anchor. Over time, low and stable inflation is an important prerequisite for growth and welfare. The regulation stipulates a flexible inflation target for monetary policy. According to Ms. Christiansen, this
gives the Norges Bank the flexibility to deviate from the target if necessary and that weight is given to variability in inflation as well as to variability in output and employment in interest-rate setting. In the short and medium term, monetary policy would balance the need for low and stable inflation on the one hand, against the need for output and employment stability, on the other hand. Aiming fiscal policy more towards medium term objectives means that monetary policy has assumed greater responsibilities for regulating economic activity. A floating Norwegian Krone also has a stabilising effect, as the Krone normally appreciates in good times and depreciates in bad.

3.9 Channels through which Petroleum Industry Affected the Norwegian Economy

On 24th October 2014, the delegation visited the Norwegian Central Bureau of Statistics (SSB). The discussion at SSB focussed on the past and future effects of Norway’s petroleum resources on the Norwegian economy.
Leading the discussion, Mr. Torbjørn Eika, Head of the Research Department at SSB made a presentation on the main channels through which activities in the petroleum industry have affected the Norwegian economy. These include increased resource demand (labour, intermediate input and real investment); increased public\textsuperscript{8} income and spending as a result of oil taxes and returns attributable to national ownership of oil fields (PETORO and Statoil); positive financial markets behaviour that increased the size of the oil fund. Nevertheless, reflecting from a different perspective, Mr. Eika pointed out that the high resource demand also had negative consequences such as misallocation of labour and capital from other sectors of the economy.

\textsuperscript{8}Public control over oil revenues resulted in around 90\% of oil rent flowing into public coffer.

Positive international financial markets behaviour placed the Norwegian oil fund along the positive growth trajectory, which significantly helped to smoothen the effects of oil price fluctuations. Through the fiscal rule of 4\%, huge savings were created for future generations and the ageing population.
Summarizing his presentation Mr. Eika listed four (4) factors which contributed to relatively high economic multiplier effect of the Norwegian petroleum industry:-

i. Availability of a significant number of skilled labour (e.g. engineers) who could easily be transferable to the petroleum industry and a virtual exodus from the social care sectors to others that had difficulties since much of the labour had left for the oil sector;

ii. Developed services sector which contributed up to 28% of service deliveries to the petroleum sector;

iii. Advanced manufacturing sector which contributed around 11% of intermediate inputs, ship and platform buildings and construction materials; and

iv. Well-developed energy sector from hydropower.

3.10 Nordic Model on Income Distribution and Welfare Enhancement

Norway is referred to as a model country that has achieved low income inequality and improved social welfare of its people despite its vast natural resources. This peculiarity with many other natural resource rich countries has attracted attention world-wide to understand how the ‘Nordic Model’ works in redistributing petroleum rent.

Presenting on the Nordic Model, Professor Kalle Moene from the Department of Economics at the University of Oslo and the Director of Research Project on Equality, Social Organization and Performance (ESOP), described the Nordic model as a set of institutions and policies which complement each other to achieve optimum economic and welfare gains. The model encompasses free market economy, high taxation, provision of public services, centralized wage settlements and extensive social insurance.
According to Professor Moene, free market economy enhances productivity and creates the potential for higher incomes. High tax rates are intended to extract adequate revenue for financing social services and savings for future generation. Broad spectrum of welfare and social insurance mechanisms shield the individual from loss of income while minimum standards in employment relationships promote a high labour market participation rate. Public provision of services such as education and other social services promote equal living conditions as well as female labour market participation. Regulated labour market which is based on laws and collective bargaining ensures high job security, supports skills formation and prevents the possibilities of boosting wage differentials with petroleum money.
3.11 Social Implications in Sustaining Oil Fund and the Fiscal Rule

Norway’s fiscal position is enviable. Its large oil and gas revenues, as well as the policy of saving these revenues and investing them abroad through the GPFG, have allowed Norway to run large budget surpluses and amass large net government assets. However, the socio-economic cost in managing Norwegian oil wealth and associated policies such as 4% fiscal rule are significant.

While the 4% fiscal rule has so far been effective in limiting Dutch disease effects and insulating the budget from changes in petroleum prices and extraction rates, there are concerns that the rule implies an expansionary fiscal policy in the long-run as the GPFG grows much faster than GDP. This would, among other effects, result in tax increase on people’s income to finance expanding state budget.

In an attempt to accommodate some potential adverse effects of expanding the state budget, monetary policy has been implemented in favor of the voters. Presenting on how this is effected, Professor Halvor Mehlum from the Department of Economics at the University of Oslo and Deputy Director of ESOP pointed out that the Norges Bank through its flexible inflation targeting monetary policy has kept the policy rate stable and at low level (1.5%) for over last two years (since 15 March 2012). This approach takes into consideration that a lot of Norwegians hold mortgages; hence interest rates have to remain low to avoid public upset that they are over taxed.

3.12 Norway Development Initiatives in the MEFMI Region

The delegation had a meeting with officials from the Norwegian Ministry of Foreign Affairs and Norway Agency
for Development Cooperation (NORAD). The discussion focused on regional development, challenges and areas that the Government of Norway can consider to also support going forward. The MEFMI Executive Director also made a presentation about MEFMI and its capacity building initiatives in the MEFMI region.

In his presentation, Dr. Fundanga expressed his gratitude to the government of Norway for the significant role they play in supporting the Institute’s capacity building initiatives since inception. Dr. Fundanga, also gave an outline of the region’s growth trajectory which hinges on stable macroeconomic performance and political stability. Concluding, he emphasized on the need for the MEFMI region to come up with feasible strategies on how to sustain positive growth amid downside risks such as declining world primary commodity prices and inadequate capacity to manage regional natural resource potential.

There was a general consensus that Norway expertise and experiences can unleash natural resource potential in the MEFMI region. Building capacity on natural resource
governance and participation of women in wealth creation were pointed out as areas that the Government of Norway would wish to continue supporting the region going forward.

The Permanent Secretary in the Zimbabwe Ministry of Finance and Economic Development, Mr. Willard Manungo underscored the need for continued cooperation between Norway and Zimbabwe. He stated that while Zimbabwe has not yet been able to settle its multi-billion dollar public debt with the World Bank and other bilateral donor agencies, it was the Zimbabwe Government’s wish to re-engage with the international community, including Norway to solicit for debt forgiveness. Debt forgiveness will create fiscal space needed for revamping various economic activities and implementation of the ZIMASSET, country development blueprint.

3.13 Extractive Industries Transparency Initiatives

Acknowledging the role of international whistle blowers in safeguarding the interest of fragile natural resource-rich countries, the delegation visited the Extractive Industries Transparency Initiative (EITI) Secretariat in Oslo. EITI is an international initiative whose purpose is to strengthen good governance in natural resource-rich countries through the publication of revenues from oil, gas and other mining companies to the State. EITI has 48 member countries including Norway.

Presenting on the motive behind the establishment of EITI, Mr. Samson Tokpah, Regional Director, EITI pointed out that mineral export receipts from Africa are seven times the Overseas Development Assistance (ODA) to the continent. This suggests that the extractive sector has a lot to do with the livelihood of the people in Africa. The
purpose of EITI is therefore to make information about the revenue streams from the extractive sector more readily available and assess its management in enhancing the welfare of the poor people. Greater transparency surrounding cash flows will also enable citizens to hold their government accountable for how natural resources revenues are used.

The delegation noted that EITI and MEFMI share common areas of mutual interest. This is due to the fact that MEFMI has strong links with revenue authorities and statistics offices hence it can complement EITI initiatives on availability of reliable data.
4. LESSONS LEARNT AND OUTCOMES

4.1 Lessons Learnt from the Study Tour

MEFMI Secretariat and member states have much to learn from Norway’s success stories in managing the financial benefits accrued from natural resources. Some of the lessons learnt during the tour were:

a) **Natural resources and poverty reduction.** The delegation learnt that properly managed natural resources have significant positive effects on economic growth and poverty reduction. Based on statistics in Chart 1 and 2, and the first hand experiences by the delegation, petroleum industries have significantly transformed the Norwegian economy and its people from least developed to a wealthier egalitarian nation in the world. This was attributable to better policies, strong institutions and good governance.

b) **Monetary Policy.** The delegation learnt that there is need for a monetary policy framework to work in tandem with other macroeconomic policies. Norway adopted a rules-based approach after two turbulent decades of boom-bust economic cycles. The path towards the current regime which is the inflation targeting with a floating exchange rate was developed and supported by successive governments in the 1990s and early 2000s. Since 2001, the operational target of monetary policy has been annual consumer price inflation of around 2.5% over time. With growing petroleum revenue, asset management has also become one of Norges Bank’s main tasks backed by transparency and accountability as a guiding principle.
c) **Fiscal Policy.** Norwegian people have been inculcated with high morale to pay tax, moral commitment and high level of tax compliance. Tax system is transparent and there is strong linkage between taxation and service delivery.

d) **Sovereign Wealth Fund.** Like Norway, natural resources rich countries need to deliberately establish Sovereign Wealth Fund for macroeconomic stabilization and to cater for future generations.

e) **Sustainable development strategy.** Norway implements development strategy of transforming the economy from natural resources wealth to financial wealth and a highly developed and egalitarian society.

f) **Thinking beyond trade theories of specialization.** Natural resource rich countries need to develop mechanism to foster economic diversification as over dependence on few export products may expose a country to risks that are associated with commodity price volatility and deteriorating terms of trade. It was also argued that diversified economic activities may lead to democracy through reduced elite tensions and broad based employment options, making political activities less costly.

g) **Legislation and the role of effective institutions.** There is unclear legislative instruments in Africa to be integrated into the governance. The sector needs to be compliant with legislations and must be for the service of the people who are the rightful owners of the mineral and any generated natural resources wealth. Good governance goes beyond anti-corruption. It encompasses reconciling various
interests, accountability and proper coordination among key institutions. Norway employs the Trinity of the Stakeholders model, inculcates collaborative and consultative spirit between citizens, the State and licensees (investors).

h) Transparency in managing natural resources revenue. If not well managed easy money from natural resource rent may cause serious corruption, waste of resources and bad governance issues. Norway has avoided this well from the onset of its oil discovery. The current natural resource management model for Norway’s hinges on the State taking ownership of, and playing the lead role in extractive activities. The Norwegian government demonstrated strategic focus when, right from the onset of its oil discovery, it took charge of and determined the scope and timing of resource development. Government’s involvement provided a strong sense of direction and long-term vision for the management of natural resources revenues. They established a Sovereign Wealth Fund, the Government Pension Fund Global (GPFG), and a fiscal policy guideline that enable a smooth public expenditure path for a stable macroeconomic development and which at the same time guarantee transparency and accountability in the management of natural resources revenues.

i) Choosing suitable international partners. The need for countries to choose international companies that suit country needs and with requisite qualifications was emphasised. It was also pointed out that while initially there was a lot of scepticism on the tax regime that was applied by Norway for
the petroleum industry; strict adherence to policy has seen investors continue to invest in the industry unabated.

j) **Suitable policies and mechanism that ensure prudent spending and fair distribution of wealth.** Norway is one of the developed countries that have in place clear, unambiguous policies and mechanism that ensure prudent spending, fair distribution of revenue, saving and investing strategies that are beneficial to the natural resources owners, the people of Norway. The benefits accrued are not only for future generations but are there to transform natural resources wealth into sustainable financial wealth.

k) **Building home grown expertise.** The delegation noted that Norway has significant home grown expertise that it taps on. These include institutions such as the CMI, Norge Bank (Investment Management), National Petroleum Directorate (NPD), University of Oslo and Norwegian Central Bureau of Statistics (SSB). MEFMI will initiate discussion on possible areas of collaboration with these institutions. It is worth noting that, institutions of similar nature to the Norwegian ones exist in our region but lack expertise in natural resources management.

l) **Building reliable data.** Further to the Norwegian institutions, it was noted that the EITI and MEFMI share common areas of mutual interest. This is due to the fact that MEFMI has strong links with revenue authorities and statistics offices hence can complement EITI initiatives on availability of reliable data.
4.2 Outcomes of the Study Tour

Some of the main outcomes of the study tour were:

i. MEFMI held discussion with CMI on common areas of mutual interest for future collaboration. The focus is to assist countries that are at initial stage of mineral discovery to pursue right policies and governance of resources. The proposed mode of delivery could be through joint researches, courses, diagnostic missions and the MEFMI Fellows Development Programme. Under the Fellows Development Programme, CMI may to provide mentorship and finance Fellows' attachment in Norway.

ii. Fruitful discussion with the Ministry of Foreign Affairs, Ministry of Finance and NORAD. During the discussion, there was general consensus that Norwegian expertise and experiences can unleash natural resources potential in the MEFMI region which will play a critical role in poverty reduction. Building capacity on natural resource governance and participation of women in wealth creation were pointed out as areas that the Government of Norway would wish to continue supporting the region going forward.

iii. MEFMI has consolidated the lessons learnt from the study tour and held follow up discussions with CMI and Zimbabwe and crystalised the lessons into the Natural Resources Management Capacity Building Programme for the MEFMI region (MEFMI NRM-CBP). The MEFMI NRM-CBP is expected to achieve the following:

- Enhanced human and institutional capacity in MEFMI’s client institutions;
- Improved data quality on natural resources production and revenue;
• Increased critical mass of experts for capacity building activities in the region;
• Enhanced skills of MEFMI staff and Fellows to contribute effectively in facilitating training and missions;
• Enhanced skills of staff from client institutions through the Training of Trainers Programme;
• Increased cooperation and knowledge sharing and synergy between the MEFMI region and technical and financial cooperating partners;
• Improved governance of natural resource wealth with inter-generational benefits; and
• High levels of economic growth and poverty reduction due to prudent management of natural resource wealth.

iv. MEFMI has initiated mechanisms for further cooperation with Norwegian institutions and other partners, going forward, to allow the region to reap from the stock of knowledge in natural resources management that Norway and other partners have accumulated over the years. This will be operationalised through memorandum of understanding.
5. CONCLUSION AND WAY FORWARD

The study tour to Norway was completed successfully with the delegation having visited about ten institutions over five days. The main objectives of the tour were largely achieved with no major challenge encountered. The delegation acknowledges with great appreciation the financial support received from the Embassy of Norway for the trip. Feedback from the delegation also states that the tour was very enriching and they benefitted immensely from the insightful presentations and discussions. The new networking contacts made are also deemed as critical to the implementation of lessons learnt.

As a way forward, MEFMI will draft proposals on possible areas of collaboration with Norwegian institutions such as CMI, SSB, Norge Bank (Investment) and University of Oslo.

Officials from the Government of Zimbabwe are expected to impart the knowledge to their institutions while MEFMI will make use of the knowledge and materials to improve training curriculums. This will therefore benefit the entire fourteen member states who will be participating MEFMI courses.

MEFMI will invite CMI experts to make presentations during the 2015 Executive Forum which will be held in Peru. The proposed topics for the Forum will focus on the issue of taxation systems employed for the extractive industries.

To enhance complementarity and prevent duplication of efforts, MEFMI foresees itself developing synergies with research institutes which are currently receiving support from the CMI such as REPOA. MEFMI will also work towards inviting CMI officials to take part in some regional activities in order for them to have greater appreciation of the capacity building initiatives that are being developed in the area on natural resources management.
# APPENDICES

## Appendix 1: List of Visited Norwegian Officials and Institutions

<table>
<thead>
<tr>
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