



# Public Financial Management Performance Report - Norway

Based on PEFA Methodology


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## Foreword and acknowledgments

This assessment of the public financial management in Norway is done by using the PEFA Performance Measurement Framework. The PEFA assessment of Norway was conducted in the first half year of 2007, and it is based on information by May 2007. A special section with an assessment of the Norwegian petroleum revenue management was added later, and this part is based on information by May 2008.

The report has been prepared by Håkon Mundal with assistance from Frode Finsås (section on tax management) in the Norwegian Agency for Development (Norad). There have been meetings and discussions with several departments in the Ministry of Finance and meeting with the Office of the Auditor General in Norway. Comments on the report have been received from the Ministry of Finance, the PEFA secretariat and internally in Norad. We would like to thank all the stakeholders involved for their contribution. Responsibility for the opinions presented in the report rests with the authors.

Oslo, 2. June 2008

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## Summary

This assessment of public financial management in Norway is based on the Public Expenditure and Financial Accountability (PEFA) Performance Measurement Framework. The framework includes an indicator based tool that provides high level information on the performance of public financial management systems, processes and institutions. Since its introduction in 2005, the PEFA framework has been applied in over 60 developing countries. The aim of using the tool in an assessment of the Public Financial Management system in Norway is to get experience with the use of the framework in a high level income country. This may address quality aspects with the tool. Furthermore a self assessment can provide information that may be a useful reference in the Norwegian work with development cooperation partners.

Norway is a country with 4.6 million inhabitants with a high standard of living. The GDP per capita was 38 800 US\$ in 2004, ranking third among the OECD countries, after Luxembourg and the United States. Norway has since petroleum reserve was found in 1969 grown into one of the world's largest oil producers. The report also includes an assessment of the Norwegian financial management of the oil revenue.

### Assessment of performance

#### *Credibility of the budget*

In 2006 the actual primary expenditures in aggregate exceeded original budget with NOK1.4 billion or 0.2 percent. The differences between actual and budgeted expenditure were less than one percent in all of the three years 2004-2006. The actual outturns by ministry show budget average variance less than 4 percent in all of the years 2004-2006.

The actual aggregate revenue has been 10-15 percent higher than estimated in the original budget. This main reason for the exceeded revenue is higher net revenue from the petroleum activity. Revenue excluding net revenue from the petroleum activities had a performance level of 98 to 101 percent of estimated revenue in 2004 and 2005, and 106 percent of budgeted domestic revenue estimates in 2006.

These indicators together with a small stock of arrears of expenditure payments indicate high credibility of the budget.

#### *Comprehensiveness and transparency*

In general the budget and key fiscal information at central level is transparent and accessible for the public. The comprehensiveness of the budget is regarded to be high. The autonomous government agencies and public enterprises submit fiscal reports to their responsible line ministry. However there is no consolidated overview of total risk for central government.

The transfers to the sub national government level are determined by transparent and rule based systems. Reports on sub national government revenue and expenditure based on accounting data is collected and consolidated by Statistics Norway. However there is no central collected ex-ante (budget) fiscal information from the municipalities and counties.

#### *Policy-based budgeting*

Norway has a clear and orderly annual budget process. The Cabinet play a central role in the process with extensive Cabinet meetings and with involvement of the line ministers in the budget process. The legislature approves the budget before the start of the fiscal year. Multi-year forecasts of fiscal aggregates are prepared for 3 years on a rolling annual basis. The forecast

include expenditures for each ministry with details of the main items on the basis of unchanged policy. In addition there is multi-year forecast of the use of petroleum income from the Government Pension Fund – Global (*i.e.* up until 2006 called the petroleum fund) in the budget based on “The fiscal guideline“. However there is no multi-year framework with functional/sector prioritising, and no direct link to annual budget sector ceilings.

#### *Predictability and control in budget execution*

The revenue administration includes transparency of taxpayer obligations and liabilities and a comprehensive system of appeal mechanism. There is high effectiveness of measures for taxpayer registration and tax assessment. There is also high effectiveness in collection of tax payments. The direct tax is collected by the local governments. The central government’s share of direct tax is daily transferred to central governments accounts.

The cash management system is well functioning. The cash balances are calculated daily and consolidated. The line ministries are authorised to spend their appropriations without an allotment system which set limits on the timing of the payment. Debt data records are complete and no guarantees of loans can be given without priori decision by the Parliament. In 2004 revised general government financial regulations were put in place in order to reduce the number and detail of regulations. Line ministers are, according to these regulations, responsible for ensuring that agencies perform a control of operations, however agencies have the flexibility to establish their own systems of internal control and auditing. The effectiveness of payroll controls and internal controls for non-salary expenditure seems to be well performing. The revised regulations of 2004 do not mention internal audit and many agencies do not have internal audit units or audit systems.

The national regulations for public procurement have recently been updated with an implementation of revised European Commission directive for public procurement. There is public statistics of the number of contracts awards (not value) above the value of NOK1.1 million (USD178 000). However there is no evidence (statistics) of the use of open competition for award of contracts compared with total contracts. Furthermore the Office of the Auditor General has several comments on shortcomings in routines and documentations in the governmental agencies.

#### *Accounting, recording and reporting*

In-year budget reports are prepared on a monthly basis with no material concerns regarding data accuracy. The classification of in-year budget reports allows comparison to the budget. Expenditure is covered at payment stages but do not capture commitments. The annual financial statement includes comprehensive and transparent information on revenue, expenditure and financial assets and liabilities, and is submitted in a timely manner. However for public services at municipality and county government level there is no central regulation to make sure that information on resources available to primary service units are publicized.

#### *External Scrutiny and audit*

The scope and nature of external audit are well performed. The timeliness of submission of audit reports is fairly good with a submission to legislature within 7 months after the release of the accounts (which is in April). When preparing the audit report the auditor general sends the findings to each ministry. The ministries’ responses are included in the audit report and reviewed by Parliament. The external auditor’s comments are generally followed up by the agencies. However twelve agencies received repeated comments on same issues from the external audit on the financial statements for 2005 and 2004. The Parliament generally does not have an extensive in-dept scrutiny of the external audit report, but three in-dept hearings were conducted during the first half of 2007.



### *The petroleum revenue management*

The petroleum revenue management in Norway functions well and transparently and follows good international practices. There is clarity in roles and responsibilities. The use of a discretionary licensing system and a complex petroleum tax system is very dependent on well functioning government institutions and furthermore a competent tax administration. These pre-conditions seem to be present in Norway.

The petroleum revenue inflow and the use of the revenues are fully integrated in the budget. The budget process is transparent and budget information is available for policy analysis and presented to promote accountability. Fiscal policy objectives and fiscal risks are identified and addressed. The Norwegian Government has recently endorsed the EITI-Initiative, and plans to invite Civil society to participate in the set up of a working plan on how to implement the EITI-Principles.

### **Comments on the overall performance and some of the PEFA scores**

The set of high-level indicators is developed with the aim of focusing on basic qualities of a public financial management system, based on existing good international practices and standards. Each indicator measures performance with a scale from A to D. The main conclusion of the assessment of the quality of the PFM system in Norway is an overall good performance with 22 high scores out of 28 aggregated indicators (17 A's and 5 B scores). There are 6 middle or lower performance scores (4 C+ and 2 D scores).

The assessment addresses a need for improvement in the Norwegian financial management system in some areas:

- The public procurement system has a fairly good score (score B on PI-19), but includes a low sub-score due to no evidence (statistics) of the use of open competition for award of contracts compared with total contracts (score D on PI-19i). The public procurement system is therefore more dependent on each agency's follow-up of the national regulations, and on potential claims to the independent agency for complaints on public procurement. There may be a sufficient monitoring and institutional set up. However the Office of the Auditor General has several comments on shortcomings in public procurement routines and documentations in the governmental agencies.
- The performance of the legislative scrutiny of external audit reports has a middle performance score (score C+ on PI-28). This is due to low frequency of in-dept hearing of comments from external audit reports by the Parliament and usually seldom clear recommendations from the Parliament to the executive. However three in-dept hearings were conducted by the Parliament during first half of 2007. Furthermore, the external auditor's comments are generally followed up by the agencies however twelve agencies have received repeated comments on same issues.

In the light of the assessment using the PEFA diagnostic framework on the public financial management system in Norway, the PEFA framework seems to be applicable in a highly developed country as Norway. However there are some areas where it is more uncertain whether middle and lower performance scorings address the needs for major improvement of the Norwegian PFM system:

- Norway does not have a fully multi-year program budgeting framework that include multi-year sector prioritising (score C+ on PI-12). In the government's view this is not necessary as the overall fiscal rule constitutes a meaningful short term medium term and long term framework for budgeting, together with multi-year fiscal sector forecast based on unchanged policy.

- The oversight of aggregate fiscal risk shows a middle score because of lack of overall consolidated overview of risk from autonomous government agencies and public enterprises (score C+ on PI-9). Norway has also a less comprehensive system of internal auditing (score D on PI-21). Furthermore in-year budget reports include expenditure at payment stages but do not capture commitments (score C+ on PI-24). These concerns may be explained with national institutional tradition in Norway and furthermore the Norwegian decentralised system of public administration. Ministries and agencies have high degree of managerial flexibility with the aim to improve efficiency and performance in the agencies. The responsibilities of the control and monitoring of the spending activities of the agencies is largely left to individual ministries and their agencies.
- The transparency of Inter-Governmental Fiscal relations has an overall fairly good score (score B on PI-8). However one of the sub-indicators has a lower score (score C on PI-8 iii) due to no central collected ex-ante (budget) fiscal information from the municipalities and counties. An explanation of this lack of information is that local government is primarily to be responsible for the local inhabitants. Collection at central level of ex-ante fiscal information from the sub national governments is therefore not prioritised. Furthermore, for the same reason, there are no central regulations for public services at municipality and county government level to make sure that information on resources available to primary service units (e.g. primary schools and health clinics) are publicized (score D on PI-23).

# 1 Introduction

The Public Expenditure and Financial Accountability (PEFA) Performance Measurement Framework has been developed by the PEFA-partners<sup>1</sup> in collaboration with the OECD/DAC Joint Venture on Public Financial Management. The framework includes an indicator based tool that provides high level information on the performance of public financial management systems, processes and institutions. Since its introduction in 2005, the PEFA framework has been applied in more than 60 developing countries.

This assessment of public financial management in Norway is based on the PEFA - Performance Measurement Framework. The aim of using the tool in an assessment of the public financial management system in Norway is to get experience with the framework in a high level income country. This may address quality aspects with the tool. Furthermore, a self assessment can provide information that may be useful reference in the Norwegian work with development cooperation partners.

The assessment is carried out by the Norwegian Agency for Development Cooperation (Norad). There have been meetings with different departments in the Ministry of Finance and the Office of the Auditor General in Norway to collect information. Comments on a draft report have been received from the Ministry of Finance and the PEFA Secretariat.

The focus of the assessment is public financial management at central government level, including the inter-governmental fiscal relations and relations between the central government and state owned public enterprises. Norway has a relatively large public sector with public expenditure of 41 percent of GDP (2005), which is in line with the average in OECD countries but lower than the other Scandinavian countries<sup>2</sup>. As a share of the Mainland-GDP (exclusive petroleum activities) public sector expenditure is 56 percent, which is comparable with or higher than other Scandinavian countries.

The public expenditure at central level is estimated to NOK702 billion in 2007. These include NOK234 billion consumed through the central administration, NOK273 billion in benefits to private household, NOK106 billion in transfer to the sub-national government (which accounts for 44 percent of sub-national government revenue) and NOK89 billion other expenditures, see table below. There are 17 central ministries mostly responsible for policy making, and a larger number of agencies (around 180) that implement policies. Over 97 percent of government employees work in agencies<sup>3</sup>.

The sub-national level includes 19 counties and 431 municipalities. The total public expenditure at sub-national level is estimated to NOK246 billion in 2007; NOK210 billion in consumption, NOK25 billion in benefits to private household and net NOK11 billion other expenditures.

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<sup>1</sup> PEFA-program is a multi-agency partnership program sponsored by The World Bank, IMF, EC, UK's DfID, French Ministry of Foreign Affairs, Norwegian Ministry of Foreign Affairs, Swiss State Secretariat for Economic Affairs and The Strategic Partnership with Africa

<sup>2</sup> Source: Budgeting in Norway, OECD 2006

<sup>3</sup> Source: Ibid

**Table 1.1 Central and sub-national government. Public expenditure. 2007. NOK billion**

Institutions	Public expenditure 2007
Central government	702
- Consumption state administration	234
- Benefits to private household	273
- Transfers to sub-national government	106
- Other expenditure	89
Sub-national governments (Municipalities and counties)	246
- Consumption	210
- Benefits to private household	25
- Other expenditure	11

Source: St. prp. nr. 2 (2006-2007). Revised National Budget 2007

There are 46 fully state owned limited companies (AS), 37 partly owned limited companies, 5 state regional health enterprises, 5 state public enterprises, 4 companies organised by special act, and 26 student associations<sup>4</sup>:

- The fully state owned limited companies. Their total current revenues were NOK45 billion in 2005, of which NOK2.7 billion transfers from the central government. The largest subsidies are to the state rail company, *Norges Statsbaner AS* (NOK1 502 million), the postal service, *Posten Norge AS* (NOK326 million), road construction, *Mesta AS* (NOK280 million) and petroleum activity, *Petoro AS* (NOK218 million).
- The state regional health enterprise (5 regional enterprises). Total current revenues were NOK74 billion in 2005, of which NOK64 billion transfers from the state.
- The 5 state public enterprises (*Statskraft SF*, *Statsnett SF*, *Enova SF*, *SIVA SF*, *Statskog SF*). Total current revenues were NOK20 billion in 2005, of which NOK 0.11 billion transfers from the state.
- The companies organised by special act. These are the central bank (*Norges Bank*), the state-owned wine and spirits monopoly (*A/S Vinmonopolet*), the student associations (*Studentsamskipnadene*), Innovation Norway (*Innovasjon Norge*), the Norwegian Investment Fund for Developing Countries (*Norfund*).
- The partly owned limited companies (37 companies, at least 40 percent state ownership). The largest companies are *Statoil ASA*, *Norsk Hydro ASA*, *Telenor ASA*.

<sup>4</sup> Source: Dok. Nr. 1 (2006-2007)

## 2 Country background information

### 2.1 General information

Norway has a small population of only 4.6 million inhabitants. The area of the country is outstretched with a long coast line, and has a population density of 14 inhabitants per square kilometre.

Norway is a constitutional monarchy and became an independent nation in 1905 after the union with Sweden. The Parliament (The Storting) is elected by a system of proportional representation and there are a large number of political parties. In the 2005 parliamentary election, seven parties were elected to parliament.

Since 1965 Norway has been mostly governed by minority governments. However, the government formed in 2005 is a majority government made up of a coalition between the Labour Party, the Socialist Left Party and the Centre Party. Norway is a member of the European Economic Area (EEA) and is as such included in the common market of the European Union. Norway rejected joining the European Union in referenda held in 1972 and 1994.

### 2.2 The country economic situation

The Norwegian economy experienced strong economic expansion in the period from 1993 to 1998. Growth slowed down after 1999, and the economy reached a cyclical trough in 2003. Growth in the mainland economy picked up again in the second half 2003, driven by strong growth in private consumption and an increase in mainland fixed business investments and investments in the petroleum sector.

The Mainland-GDP has been expanding in 2004, 2005 and 2006 by around 4 ½ percent annually and with a forecast at 3.7 percent in 2007<sup>5</sup>. Norway has been supplying energy at high international prices, and has been increasingly importing low-cost consumer goods. The resulting terms of trade gains have been large both by international and historical standards. Inflation and wage growth have remained low, thanks to declining import prices and large migration inflows of labour. Employment has increased substantially and the unemployment rate is now the lowest in almost 20 years. The unemployment rate is estimated to decline from 3.4 percent in 2006 to 2.5 percent in 2007.

The GDP per capita was 38 800 US\$ in 2004, ranking third among the OECD countries, after Luxembourg and the United States<sup>6</sup>. Norway has since the petroleum reserves were found in 1969 grown into one of the world's largest oil producers.

### 2.3 Description of budgetary outcomes

#### *Fiscal performance*

The government's fiscal performance 2002-2007 is showed in table 2.1 below. The total revenue has increased from NOK691 billion in 2002 to estimated NOK979 billion in 2007. The revenues from petroleum activities are estimated to NOK323 billion for 2007 and NOK656 billion are revenues exclusive petroleum activities. The general government financial balance is estimated to a surplus of some less than NOK340 billion in 2007, 15.5

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<sup>5</sup> Source: St.meld. nr. 2 (2006-2007), Ministry of Finance

<sup>6</sup> Source: Economic Review – Norway, OECD January 2007

per cent of GDP. The surplus in 2002 was NOK107 Billion, 9.2 percent of GDP. A more detailed table of the Fiscal Budget and the Government Pension Fund – Global for 2005-2007 is given in annex 2.

**Table 2.1 Public Finances. Key figures 2002-2007. NOK billion**

	2002	2003	2004	2005	2006 1)	2007 1)
Fiscal Budget revenues	691	700	746	861	995	979
% of GDP	45.1%	43.9%	42.8%	44.3%	46.3%	45.3%
Fiscal Budget expenditures	584	593	622	650	684	717
% of GDP	38.1%	37.2%	35.7%	33.5%	31.8%	33.2%
Fiscal Budget, surplus before loan and net transfers to Pension Fund - Global	107	108	124	211	311	263
General government financial balance	141	116	194	296	391	336
% of GDP	9.2%	7.3%	11.1%	15.2%	18.2%	15.5%

1) Account estimates, Revised National Budget 2007, May 2007

Source: Ministry of Finance

The guidelines for economic policy stipulate that fiscal policy shall be geared towards a gradual and sustainable use of petroleum revenues. Over time the structural non-oil deficit shall correspond to the expected real return on the Government Pension Fund – Global (*i.e.* the petroleum fund), estimated at 4 percent.

Since the fiscal guideline was introduced in 2001, the use of petroleum revenues has exceeded the expected real return on the Pension Fund – Global. However the state accounts for 2006 show that the use of petroleum revenues was on par with the 4 per cent fiscal rule in 2006. The Government has proposed in a revision of the Fiscal Budget 2007 a structural, non-oil budget deficit at NOK67.8 billion in 2007, which is NOK 3.5 billion lower than the expected 4 percent real return on the Fund.

#### *Allocation of resources*

The state budget allocation by political sector in the period 1998-2006 as presented in the state budget proposal for 2007 is shown below. All amounts are inflated to 2006-prices to be more comparable.

**Table 2.2 Budget allocations by political sector. Fixed 2006-prices. 1998, 2002, 2006**

Policy sector	1998	2002	2006 1)	Annual real growth		
	NOK billion	NOK billion	NOK billion	1998-2002	2002-2006	1998-2006
Administration	17.3	15.9	16.0	-2	0	-1
International cooperation (exclusive refugees in Norway)	13.5	15.0	18.0	3	5	4
Military defence and civil protection	35.8	35.4	31.2	0	-3	-2
Justis	12.5	14.7	15.9	4	2	3
Education and research	30.3	35.7	39.5	4	3	3
Church and culture	4.5	5.8	7.2	7	5	6
Pensions and social security	185.6	206.4	218.6	3	1	2
Health and social	43.2	92.6	102.3	21	3	11
<i>State hospitals</i>	23.0	62.9	70.2	29	3	15
<i>Health and social in addition to state hospitals*</i>	20.2	29.7	32.1	10	2	6
Family and consumer	39.5	42.2	50.9	2	5	3
Environmental protection	2.9	2.9	3.1	0	1	1
Immigration	3.3	6.4	5.6	18	-3	7
Private sector development and regional policy	32.7	28.0	25.2	-4	-3	-3
Energy exclusive petroleum	1.2	1.3	1.4	3	1	2
Labour market and – environment	16.1	17.9	17.2	3	-1	1
Transport	20.6	21.3	22.1	1	1	1
Unconditional transfers the local government	67.2	85.3	63.5			
Interest state debt	18.3	17.2	18.1			

1) Estimated accounts.

\* *There was a reorganising of public hospitals in 2002, where the financing were transferred from regional governments to the state. The high growth in expenditures from 1998 to 2002 can to a large extent be explained by this reorganising and only a smaller part of the growth is caused by actual increase in health expenditures.*

Source: *St.prp. nr. 1 (2006-2007), Ministry of Finance*

## 2.4 Legal and institutional framework for public financial management

### *The role of the government and the Parliament in the budget process*

The *legal framework* for the budgetary process is based on budgetary regulations adopted by the Parliament.<sup>7</sup> The budgetary regulations in force today were adopted on the first of January 2006 and replaced the regulations dating from 1959. In addition, there are budgetary rules decided by the administration within the legal framework on the budgetary regulations. The budgetary regulations define the current one-year budgeting system and require the budget to be presented comprehensively, on a cash and gross basis.

The Fiscal Budget follows the calendar year. The annual government *budget process* starts with a circular letter from the Ministry of Finance to the line ministries. This letter is sent in

<sup>7</sup> Revised regulations passed in Parliament May 2005 (Inst. S. nr. 187 (2004-2005))

December of year t-2 and aims at preparing for the first Budget Conference that is held in March. The line ministries are asked to make proposals on projections of expenditures for the following four years based on unchanged policy and proposals for new policies. The first Budget Conference decides on the total spending and revenue limits, the total limit for new policy initiatives, and the expenditure and revenue limits without new priorities for each ministry. At the second Budget Cabinet meeting in August new policy initiatives are decided as well as the final allocation of the ministries' budgets. The budget bill is presented to the Parliament in October. The budget documents are the National Budget (white paper), the budget proposal ("Yellow book"), one budget document per ministry which are presented as annexes to the Yellow book, and the proposed tax-bills.

The *Parliament* (The Storting) has the final authority in matters concerning state finances<sup>8</sup>. It allocates funds and has the power to order expenditures. The budget is not formulated as a law. It is dealt with in plenary sessions and decided upon by plenary votes. Required changes in the tax laws are a matter of law and are dealt with as a part of a bicameral system.

The budget proceedings in the Storting are coordinated by the Standing Committee on Finance and Economic Affairs (finance committee). The finance committee presents its recommendations not later than 20 November. The recommendation contains 22 budget frame spending limits and 2 revenue limits. The sectoral standing committees (thirteen permanent committees) may only make reallocations within the limits that have been decided. The budget recommendations of the standing committees shall be considered by the Storting by 15 December at the latest. The Parliament enjoys extensive formal amendments rights. The Parliamentary committees do usually play an independent role in the political process, but the members voting may be a function of party discipline if there are disagreements. The government's proposal and the Storting's resolution normally differ by less than one percent.<sup>9</sup>

The Constitution of 1814 established the right of the Parliament to elect *Auditors-General*. The Office of the Auditor General (OAG) was established in 1918 when the five Auditors-General (elected by the Parliament) and the Audit Ministry became one institution with the Act on the Auditing of Governmental Accounts. The Office of the Auditor-General has currently around 500 employees. Audit reports to Parliament contain considerations and assessments, but no specific recommendations. Audit reports are sent to the Parliament with the comments of the respective minister responsible. The audit reports are dealt with by the Committee on constitutional matters. Besides the regular audit reports (including audit of the state budget accounts), performance audits are also carried out, on average 8 per year.

### *Government management and budget implementation*

Norway has an institutional framework in which ministers are accountable to Parliament for all the operations under their area of responsibility. Within this framework Norway implemented a *budget reform* in 1986 with a greater focus on results and efficiency and delegated extensive administrative authority to line ministries and agencies. Ministries are formally responsible for ensuring that agency operations are in line with decisions by Parliament, that resources are used effectively and that agencies operate a sound system of internal control.

The Government Decree on Financial Management regulates *management* of all administrative central government bodies, all activities in the administration and all grants, contributions and guarantee schemes (endorsed in December 2003). In accordance with the

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<sup>8</sup> The Constitution from 1814 gives the Storting the legal responsibility for the state finances

<sup>9</sup> Source: Economic Review – Norway, OECD January 2007



government decree the Ministry of Finance has issued Provision on Financial Management<sup>10</sup>. The ministries' management of the agencies, internal management in the agencies and internal control requirements are covered by the Regulations. The Regulations include measures to promote good governance and efficient use of government resources.

The individual *line ministries* have within this framework the flexibility to establish their own approach for overseeing and managing agencies. The letter of instruction for the agencies (letter of allocation) is the main instrument used by ministries to implement the budget. The letters set out the appropriations for the agency, the overall goals and steering parameters, the power of authority, reporting demands, and information requests on performance and indicators. It is the responsibility of the individual line minister to monitor and control spending at the agency level. The Ministry of Finance gives assistance by providing monthly reports to the line ministers on spending. It is the responsibility of the individual minister to take action to check overspending.

Each ministry and each *agency* receive one appropriation for all of their wages and operating expenditures. There are few restrictions on the choice of inputs. The agencies have the flexibility to choose the appropriate mix of inputs to fulfil their mission. Transfers from current expenditure appropriation to appropriation for investment purposes under the same chapter are possible, though limited to 5 percent of the appropriation for current expenses. It is also possible to transfer up to 5 percent of current expenses to the following budget period. There is no borrowing against future appropriations.

The *human resource* management has become more decentralised over the past ten years. Individual ministries and agencies have the flexibility to recruit and hire their own staff and to dismiss non-senior civil servants. There are small numbers of political appointees in the government. Vacancies for both senior civil servants and civil servants are publicly advertised and all posts are generally filled through a process of open competition. Civil service pay negotiations take place through a process of collective bargaining between the civil service trade unions and the Ministry of Government Administration and Reform. The Ministry of Finance is not directly involved in this process. Collective bargaining arrangements have traditionally been centralised, but in recent years there has been effort to introduce a higher degree of decentralisation into the process. Performance pay is not very widely used for civil servants in the central government; when used it is only applied for senior civil servants in managerial position.

The *Ministry of Finance* is responsible for the cash system and the state accounts. The Ministry established in 2004 the Norwegian Government Agency for Financial Management to take over the tasks related to the state accounts and the governmental consolidated account systems. The agency also administers the financial management regulations and the framework agreement for banking services, and delivers payroll and accounting services to the government administrations.

A governmental expert committee recommended in 2003 moving to fully accrual accounting and budgeting<sup>11</sup>. In the budget proposal for 2004 the former Government stated that the appropriations should remain on a cash basis, arguing that cash basis provides Parliament with more precise and unambiguous information and that the fiscal policy role of the budget is better served by *cash-based appropriations*. The majority of the Parliament supported this view. However the Government also proposed pilot testing on accrual accounting at the agency level in ten agencies. It is planned to evaluate these pilots in 2009.

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<sup>10</sup> Reglement for økonomistyring i staten og Finansdepartementets Bestemmelser om økonomistyring. The regulations took effect 1 January 2004.

<sup>11</sup> NOU 2003:6 "Hva koster det?" (statsbudsjettutvalget)

The appropriation regulations require that the budget proposal contain information on planned objectives and achieved results for the previous financial year together with financial information. The ministries are to ensure that agencies report relevant and accurate *performance information* and that they commission evaluations. Performance information is requested by the different ministries in their letter of instruction to agencies. Despite these formal requirements and processes an OECD assessment comments that many ministries and agencies have made only limited progress in developing meaningful performance measures and using them in the budget process.<sup>12</sup> By 2007 Statistics Norway will develop a web-based system for communication of government services, quality, results and resources.<sup>13</sup>

Funding is directly linked to results in some sectors, mainly education and health. In the health sector there have been problems with cost-controls, perverse incentives and cheating (e.g. manipulated diagnosed categories) since the performance based funding was introduced. In the area of education, where universities are paid according to the number of students who graduate, expenditures have increased every year after the introduction of performance linked funding.<sup>14</sup>

### *Local and regional governments*

The governments at both the municipal level and county level have direct elections with popular representatives responsible to their constituents. About 20 percent of the labour force works in the local public sector.

Almost half of the *sub-national revenues* are from taxes<sup>15</sup>. The most important local tax is a share tax between the central and sub-national government from personal income and corporations. Municipalities are free to set their tax rates, but a maximum tax rate is set by Parliament. In practice all municipalities use this maximum rate. In addition the municipalities have the opportunity to issue local property tax and several municipalities have chosen to use this source of additional income. Grants from central government cover 44 percent of the sub-national government revenues (NOK106 billion in 2007).

The budget of the municipalities is more than five times bigger than that of the counties. The counties are *responsible* for upper secondary education and regional development, including regional transport, business development, dental health service and culture. Municipalities do have responsibilities within the field of primary and lower secondary education, kindergartens, care for elderly and disabled, as well as classic municipal functions such as fire prevention, local transport, waste collection, sanitation and water. More than half of sub-national government is spent on education and social protection.

The main *central requirement* for the budget of local governments is operational budget balance. Current revenue must be sufficient to cover current expenditures, as well as the costs of servicing the local government debt. Borrowing can only be used for investment purposes. Overall the Norwegian local public sector has not experienced serious problems of deficits and debts since the Second World War.<sup>16</sup>

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<sup>12</sup> Source: Economic Review – Norway, OECD January 2007

<sup>13</sup> See “StatRes” Statistics Norway: [www.ssb.no](http://www.ssb.no)

<sup>14</sup> Source: Economic Review – Norway, OECD January 2007

<sup>15</sup> St.meld. nr. 1 (2006-2007), Table 1.18.

<sup>16</sup> Source: Economic Review – Norway, OECD January 2007

## 3 Assessment of public financial management systems, processes and institutions

### 3.1 Introduction

The PEFA Performance Measurement addresses the following critical dimensions of performance of an open and orderly public financial management system (PFM):

1. *Credibility of the budget* - The budget is realistic and is implemented as intended.
2. *Comprehensiveness and transparency* - The budget and the fiscal risk oversight are comprehensive and fiscal and budget information is accessible to the public.
3. *Policy-based budgeting* - The budget is prepared with due regard to government policy.
4. *Predictability and control in budget execution* - The budget is implemented in an orderly and predictable manner and there are arrangements for the exercise of control and stewardship in the use of public funds.
5. *Accounting, recording and reporting* - Adequate records and information are produced, maintained and disseminated to meet decision-making control, management and reporting purposes.
6. *External scrutiny and audit* - Arrangements for scrutiny of public finances and follow up by executive are operating.

Against these six core dimensions a set of high-level indicators (28 indicators) measures the operational performance of the PFM systems, processes and institutions of a country central government, legislature and external audit<sup>17</sup>.

Each indicator contains one or more dimensions in order to assess the key elements of the PFM process. Two methods of scoring are used. Method 1 (M1) is used for all single dimensional indicators and for multi-dimensional indicators where poor performance on one dimension of the indicator is likely to undermine the impact of good performance on other dimensions of the same indicator (in other words, by the weakest link in the connected dimensions of the indicator). A plus sign is given, where any of the other dimensions are scoring higher.

Method 2 (M2) is based on averaging the scores for individual dimensions of an indicator. It is prescribed for selected multi-dimensional indicators, where a low score on one dimension of the indicator does not necessarily undermine the impact of a high score on another dimension of the same indicator. Though all the dimensions fall within the same area of the PFM system, progress on individual dimensions can be made independent of the others and without logically having to follow any particular sequence. A conversion table is then provided for 2, 3 and 4 dimensional indicators to set an overall score. In both scoring methodologies, the 'D' score is considered the residual score, to be applied if the requirements for any higher score are not met.

The following paragraphs provide the detailed assessment of the Norwegian PFM system for each of the six core dimensions of the PFM performance. A table will follow at the end of the discussion of each dimension specifying the scoring on the indicators with a brief

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<sup>17</sup> In addition the PEFA framework also includes 3 indicators on donor practices to capture elements of donor practices which impact the performance of country PFM system. The donor indicators are not applicable in the assessment of the Norwegian public financial system.

explanation for the scoring. Finally there is a section with a further assessment of the Norwegian management of revenues for oil.

A complete listing of the individual indicators is found in Annex 1.

A detailed guidance on the scoring is given in the PEFA Performance Measurement Framework, June 2005, and is available on the website [www.pefa.org](http://www.pefa.org).

### 3.2 Budget credibility

A comparison of outturns against the original budget indicates that, in aggregate and by ministries, the budget is a good measure of the level of expected budget outcomes. Table 1 shows execution of primary expenditures for the years 2004-2006 *in aggregate*, i.e. total expenditure excluding debt service payments (Performance Indicator 1). The deviations were less than 1 percent in all of these three years. Actual expenditures exceeded the original budgeted amounts in 2004 and 2006.

**Table 3.1 Comparison of Original Budgeted and Actual Expenditures. 2004-2006**<sup>18</sup>

	2004	2005	2006
Budgeted primary expenditure (NOK mn)	603150	638863	657857
Actual primary expenditure (NOK mn)	605464	634278	659217
Difference between actual & budgeted primary expenditure (NOK mn)	2314	-4585	1360
Difference as % of budgeted primary expenditure (%)	0.4 %	-0.7 %	0.2 %

Analysis of budget deviations for primary expenditure between budgeted amounts and actual out-turns, *by ministry (PI 2)*, shows that deviations have averaged less than 5 percent of the budgeted amounts in the three most recent years (17 ministries, state banks, social security "Folketrygden" and the state petroleum activity<sup>19</sup>, see calculations in Annex 2)<sup>20</sup>. The average variance in excess of overall deviation was 3.2 percent in 2005, 3.4 percent in 2005 and 2.4 percent in 2006.

Actual domestic *revenue collection (PI 3)*, including net revenue from petroleum activity, was 10-15 percent higher than the estimates in original approved budget in the three years 2004-2006, see table 2. Revenue exclusive net revenue from petroleum was estimated with little deviation from actual revenue collection. In 2004 and 2005 revenue exclusive petroleum was 98.3 percent and 101.2 percent of budgeted domestic revenue estimates and in 2006 105.6 percent.

<sup>18</sup> Sources: St.prp. nr. 1 (2003-2004), (2004-2005), (2005-2006), St.meld. nr. 3 (2004-2005), (2005-2006), (2006-2007), St.prp. nr. 31 (2006-2007).

<sup>19</sup> The State's direct financial interest in the petroleum sector. This involves the State's paying of a share of all investments and operating costs in projects. Do not cover the State's shareholding in StatoilHydro AS, Petoro AS, Gassco AS

<sup>20</sup> Ibid, Calculations are presented in Annex 2. Figures for 2004 is justified for KR, ASD, HOD, NHK, MOD for changes in ministries responsibilities from 1. October 2004, St.prp. nr. 31 (2004-2005)

**Table 3.2: Comparison of Original Budgeted and Actual Domestic Revenue Receipts, (exclusive net revenue from petroleum in parenthesis) 2004-2006<sup>21</sup>**

	2004	2005	2006
Budgeted receipts (million NOK)	814.729	912.622	1059.142
Actual receipts (million NOK)	922.290	1007.921	1223.707
Difference as % of budgeted receipts	13.2% (-1.7%)	10.4% (1.2%)	15.5% (5.6%)

The general government regulations include expenditure payment systems, procedures and control activities. Each agency is responsible to establish systems and procedures for expenditure payment to be registered, disbursed and controlled, and that there are measures to expose and correct arrears in systems or routines<sup>22</sup>. There is no central data system on the stock of arrears, but each agency has data system to monitor expenditure *payment arrears (PI 4)* and to generate data on this. Several of the agencies have started to use e-based invoice system.

The Office of the Auditor General has had few comments on the agencies' data systems to monitor expenditure payment arrears. However the Auditor General had comments on payments arrears in 2004 for the military agencies (3000 receipts past deadline per 31.12.2004, NOK196 million, 0.6 percent of total expenditure in the military agencies) and payments arrears in the agency for social incurrence - *Trygdeetaten* (past deadline NOK20 million, 0.4 percent of total expenditure in 2004). There have been improvements in both entities<sup>23 24</sup>.

The total stock of payments arrears is assessed to be at a low rate. As mentioned there is no central data system on the stock of arrears. However there have been few comments from the Auditor General the last three years on the agencies systems as regard to errors of expenditure payments. Furthermore in the two cases were the Auditor General had comments the errors were below 1 percent of total expenditure in these agencies, and the comments in this agencies have been followed up. This indicates that expenditure payments arrears are at a very low level.

***Budget Credibility – Performance indicators (PI 1-4)***

Indicator	Score	Brief Explanation (Scoring Method M1)
1. Aggregate expenditure out-turn compared to original approved budget	A	Deviations between actual and original budget primary expenditure were: 2004 = 0.4%; 2005 = -0.7%; 2006 = 0.2%  The deviations were less than 5 percentage in all of the three years (Score= A)
2. Composition of primary expenditure out-turn compared to original approved budget	A	The average variance in excess of overall deviation was: 2004 = 3.2%; 2005 = 3.4%; 2006 = 2.4%  The variance were less than 5 percentage in all of the years (Score=A)

<sup>21</sup> Sources: St.meld. nr. 3 (2005-2006), St.meld. nr. 3 (2004-2005), St.meld. nr. 3 (2003-2004).

<sup>22</sup> Source: Bestemmelser om økonomistyring i staten, section 5. The Ministry of Finance

<sup>23</sup> Source: Dok. nr. 3:8 (2004-2005), Dok. nr. 1 (2005-2006).

<sup>24</sup> Source: Total expenditure in 2004 for military defence was NOK 31.5 billion and for Trygdeetaten NOK 5.1 billion

Indicator	Score	Brief Explanation (Scoring Method M1)
3. Aggregate revenue out-turn compared to original approved budget	A	Variations between original budget revenue and actual outturn were (exclusive net revenue from petroleum in parenthesis): 2004 = 13.2% (-1.7%); 2005 = 10.4% (1.2%); 2006 = 15.5% (5.6%)  Actual domestic revenue collection was not below 97% of budgeted domestic revenue estimates in none of the last three years (Score= A)
4. Stock and monitoring of expenditure payment arrears	A	(i) The stock of arrears is insignificant (Score=A) (ii) Reliable and complete data on the stock of expenditure payment arrears is generated in each agency through routine procedures (Score=A)

### 3.3 Transparency and comprehensiveness

The Budget Proposition shows budget broken down by agency, i.e. administrative classification (PI-5)<sup>25</sup>. There is a presentation of expenditures by economic classification (current operations, capital operations, financial operations etc.), by functional classification (by functions of government such as health, education and defence), and by sub-functional classification. The Budget Proposition is not presented according to GFS/COFOG standards, however, the standard used is considered to be able to produce consistent documentation according to GFS/COFOG standards<sup>26</sup>. Statistics Norway prepares presentations of national accounts by GFS/COFOG standards<sup>27</sup> in a timely manner. Statistics Norway publishes General government fiscal account (revenue and expenditure) in June the year after annual year has ended, and revenues and expenditures from the central government fiscal account quarterly 1-2 month after ended quarter.

The budget proposal is presented to Parliament in a number of documents; The Yellow book, detailed proposals for each line ministry, Tax proposals and Macroeconomic assumptions<sup>28</sup>. The budget documents submitted to Parliament provide a comprehensive picture of central government fiscal activities (PI-6). *The information cover:*

1. Macroeconomic assumptions, including estimates of aggregate growth, inflation, exchange rate<sup>29</sup>;
2. Fiscal surplus<sup>30</sup>;
3. Information on use of surplus<sup>31</sup>;
4. Debt stock, including details at least for the beginning of the current year<sup>32</sup>;
5. Financial assets, including details at least from the beginning of the current year<sup>33</sup>;
6. Prior year's budget outturns presented in the same format as the budget proposal<sup>34</sup>;

<sup>25</sup> Source: St.prp. nr. 1 (2005-2006)

<sup>26</sup> Source: Ministry of Finance. Government Finance Statistics (GFS) is the international standard for classification which provides the framework for economic and functional classification of transactions. Classification of Functions of Government (COFOG) is the functional classification applied in GFS (with ten main functions at the highest level and 69 functions at the second sub-functional level).

<sup>27</sup> Source: COFOG classification of public government expenditure in Norway. Statistics Norway October 2006 NOS D 364

<sup>28</sup> Source: St.prp. nr. 1 (The Yellow book), St.prp. nr. 1 (Detailed proposals for each line ministry), St.prp. nr. 1 (Tax proposals), St.meld. nr.1 (Macroeconomic assumptions).

<sup>29</sup> Source: St.meld. nr. 1 (2006-2007)

<sup>30</sup> Source: St.prp. nr. 1 (2006-2007)

<sup>31</sup> Ibid

<sup>32</sup> Ibid

<sup>33</sup> Ibid

<sup>34</sup> Source: St.prp. nr. 1 (2006-2007) Utenriksdepartementet

7. The annual budget presents the current year's budget in the same format as the budget proposal. At disaggregated level the current year's budget presented, is the original approved budget. In addition the status of the current budget per 1.half year is presented at aggregated and at programme level<sup>35</sup>;
8. Summarised budget data for both revenue and expenditure, including the current and previous year<sup>36</sup>;
9. Explanation of budget implications of new policy initiatives with estimates of the budgetary impact of all major revenue policy changes and some major changes to expenditure programmes<sup>37</sup>.

There are extra-budgetary activities which are not direct part of the state budget (PI-7). Such *extra-budgetary activities* are reported in the state budget by the ministries or through separate annual reports. For instance there are extra-budgetary funds to road construction and public transport financed by road tolls. These funds were NOK3 970 million in 2005. The annual planned use of the funds is reported in the state budget documents to the Parliament, but the funds are not included in the state budget<sup>38</sup>. The road toll companies have contracts and report to the public road authority ("Statens veidirektorat"). There are no indications that unreported extra-budgetary expenditure is at a significant level.

#### *Transparency of inter-governmental fiscal relations (PI-8)*

Some more than half of the state transfers are unconditional block transfers<sup>39</sup>. These general grants are distributed to municipalities and counties based on *objective and transparent criteria* to compensate costs and needs that the municipality in short term can not control (demographical criteria etc.)<sup>40</sup>. Where tax revenue (exclusive property tax) is below a certain level the municipality is partly compensated up to a guaranteed average per capita country level.

As a part of the unconditional transfer system, NOK2.36 Billion in 2007 was allocated on the basis of less strict criteria to compensate for inequalities in the allocations that the objective criteria do not cover and for special local means ["Skjønnsmidler", covers 2.2 percent of the total transfers]<sup>41</sup>. The main conditional (earmarked) grants to sub-national government for 2007 are grants to child care (NOK18 billion), mental health care (NOK3 billion), regional policy (NOK2 billion), special demanding care for disabled (NOK1.8 billion) and investment grant elderly care (NOK1.5 billion)<sup>42</sup>. The earmarked grants to child care, disabled and elderly care are allocated based on transparent and rules based systems<sup>43</sup>. From 2007 a part of the regional policy grant is allocated on less strict criteria (NOK190 million)<sup>44</sup>. The grant to mental health care is based on application from the municipalities (local governmental plans

<sup>35</sup> Ibid

<sup>36</sup> Source: St.prp. nr. 1 (2006-2007)

<sup>37</sup> Ibid

<sup>38</sup> Sources: St.prp. nr. 1 (2004-2005) shows a total budget of 654 960 million NOK for 2005. St.prp. nr. 1 (2005-2006) Samferdselsdepartementet shows an expected expenditure financed by road tolls at 3 970 million NOK in 2005 (3,400 million NOK on road investments and 570 million NOK on public transport).

<sup>39</sup> Source: Rapport fra Det tekniske beregningsutvalg for kommunal økonomi. Ministry of Local Government. Appendix 1

<sup>40</sup> Source: St.prp. nr. 60 (2004-2005), vedlegg 2 and Inntektssystemet for 2006 for kommuner og fylkeskommuner Beregningsteknisk dokumentasjon til St.prp. nr. 1 (2005-2006), Rundskriv H-2180.

<sup>41</sup> Source: Statsbudsjett 2007. Rundskriv H-6/06. Appendix 3, Ministry of Local Government, 21 December 2006.

<sup>42</sup> In addition there are grants to compensate SN government for refugee expenditure (NOK 4.7 billion) and VAT compensation (NOK 9.7 billion). These grants are allocated based on a set of rules. Source: Rapport fra Det tekniske beregningsutvalg for kommunal økonomi. Ministry of Local Government. Appendix 3

<sup>43</sup> Source: Statstilskudd til barnehager - Tilskuddsatser for 2007 mv. Ministry of Education, Tilskudd til ressurskrevende brukere St.prp. nr. 1 (2006-2007) p. 213 Ministry of Health, Tilskudd til omsorgsboliger og sykehjemsplasser St.prp. nr. 1 (2006-2007) p. 140 Ministry of Local Government

<sup>44</sup> Source: Tilskudd til fylkeskommuner for regional utvikling St.prp. nr. 1 (2006-2007) p. 63 Ministry of Local Government, NOK 965 million of total NOK 1152 million is allocated based on objective criteria (Source: Kåre Movold, Ministry of Local Government)

for development of mental health care, political passed in local councils)<sup>45</sup>. Overall more than 90 percent of the transfers are determined by transparent and rules based systems.

A white paper on the overall (macro) budget of local government is presented to Parliament in May each year concerning the budget ceilings in total for sub-national governments for the following year. The white paper gives a range which indicates the revenue growth next year for the sub-national government in total within which the government intends to allocate funds to local governments<sup>46</sup>. The Parliament passes the paper in June. The final budget allocations are usually not lower than this range. A further white paper on budget proposal, with *detailed allocations* to each municipalities and counties, are presented early October prior to the budget year. The Parliament passes the budget in December and local governments are informed about the budget allocation in late December before the budget year or early in January in the budget year<sup>47</sup>.

The municipalities and counties are obliged to pass their annual budget before the coming budget year starts<sup>48</sup>. The municipalities and counties usually submit their detailed budget for the municipal councils in September or October the autumn before the budget year starts. The proposed detailed allocations from the state to each municipalities early October prior to the budget year, provides the municipalities preliminary information in time to change the local governments budget proposals. Information on final allocations from central government is provided too late to sub-national governments for budget changes to be made before the budget year starts. However the final allocation in December approved by the Parliament usually does not differ much from the macro ceilings given by the Parliament in June and the detailed proposed allocations submitted by the Cabinet in October.

*Reports* of sub-national government revenue and expenditure according to sector categories based on accounting data, is collected by Statistics Norway by June the following year (KOSTRA)<sup>49</sup>. The reporting of sub-national government is consistent with the central government fiscal reporting. Ex-ante (budget) fiscal information on state transfers to the municipalities and counties are included in the annual budget documents. Ex-ante estimates on sub-national government's revenue and expenditures according to economic classification are presented in aggregated figures for the total sub-national government<sup>50</sup>. Every municipality is obliged to deliver their budget to the state county governor (Fylkesmannen). There is no collected and consolidated ex-ante (budget) fiscal information of sub-national government expenditure according to sub-national government sector categories.

#### *Fiscal risk from other public sector entities (PI-9)*

*Autonomous government agencies* may not incur liabilities that exceed each year's budget allocation. Autonomous government agencies with net budget allocations do not report to the state account on gross expenses and gross revenue (e.g. state universities and collages). These agencies are responsible to compensate their possible negative financial year result. They are also obliged to report cash position every month to the Government Agency for Financial Management<sup>51</sup> and to the responsible line ministry<sup>52</sup>. The budget appropriation for autonomous government agencies with special authorisation is the estimated operating

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<sup>45</sup> Source: Tilskudd til psykisk helsearbeid St.prp. nr. 1 (2006-2007) p. 168, Ministry of Health

<sup>46</sup> St.prp. nr. 60 (2004-2005)

<sup>47</sup> Source: Statsbudsjettet 2007. Rundskriv H-6/06. Ministry of Local Government, 21 December 2006.

<sup>48</sup> Source: Local Government Act §45. [www.lovdatab.no](http://www.lovdatab.no)

<sup>49</sup> Source: [www.ssb.no/kostra](http://www.ssb.no/kostra)

<sup>50</sup> St.meld.nr.1 (2006-2007), Table 18.

<sup>51</sup> *Statens senter for økonomistyring (SSØ)*

<sup>52</sup> Source: Økonomiregelverkets rekkevidde overfor statlige virksomheter som har fått unntak fra bruttobudsjetteringsprinsippet. Finansdepartementets rundskriv 21.12 2005 (R-106)



results<sup>53</sup>. These agencies may not incur liabilities that exceed each year budget allocation (included internal transfers from regulation funds)<sup>54</sup>.

*Public enterprises* are limited companies, enterprises regulated by special law, or state companies.<sup>55</sup> Limited companies can not generate fiscal liabilities for the government as government responsibility is limited to the capital invested in the companies. The state owned health companies have temporary current credit loan from the state with a total ceiling of NOK6.5 billion for 2007<sup>56</sup>.

The actual line minister is responsible for the managing of fiscal risk and reporting to the Parliament. The autonomous government agencies and public enterprises submit fiscal reports to their responsible line ministry at least annually, but there is no overview or reporting of the total risk for central government. Since the Ministry of Finance has distanced itself from the role of controlling the spending activities and risk management to line ministries, the Norwegian system is predicated on a high degree of trust between the Ministry of Finance and spending ministries. There are no recently posed problems that the lack of a single overall central government fiscal risk reporting has caused any major fiscal problems.

*Local governments* can not generate fiscal liabilities for central government. In addition, if a sub-national government has not budgeted in balance, or not established short term accounting deficit in balance after two year, it will no longer be allowed to lend without permission from the central government<sup>57</sup>.

#### *Public access to key fiscal information (PI-10)*

The public has access to the following key fiscal information:

1. Annual budget documentation<sup>58</sup>: A complete set of documents can be obtained by the public when it has been submitted to the legislature. All documents are available on the internet, where annotated information on various subjects is also available.
2. Year-end financial statements<sup>59</sup>: The statements are made available to the public within four months after the completion of the financial year. The document is available on the internet.
3. External audit reports<sup>60</sup>: All reports on central government consolidated operations are made available to the public within six months of completed audit. The reports are posted on the internet.
4. Contract awards<sup>61</sup>: Award of all state contracts with value above NOK1.1 million (USD178 000) and municipality contracts above NOK1.7 million (USD275 000) are published on the internet<sup>62</sup>. Start up of a procurement competition for contracts above NOK0.5 million (USD80 000) are obliged to be published, but there is no obligation to publish the contract award<sup>63</sup>.

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<sup>53</sup> Statens forvaltningsbedrifter og statens direkte økonomiske engasjement i petroleumsvirksomheten (SDØE).

<sup>54</sup> Source: Bevilgningsreglementet §7. Særregler for statens forvaltningsbedrifter (Statsbygg, Statens Pensjonskasse, Statens kartverk, Garanti-Instituttet for Eksporkreditt) og statens direkte økonomiske engasjement i petroleumsvirksomheten (SDØE). Veileder i statlig budsjettarbeid, s. 51 Finansdepartementet.

<sup>55</sup> Limited companies: *Aksjeselskap*, Enterprises regulated by special law: *Særlovsselskap*, State companies: *Statsforetak*, The state owned health companies: *Helseforetakene*

<sup>56</sup> Source: St.prp. nr. 1 (2006-2007)

<sup>57</sup> Source: Local Government Act §60.

<sup>58</sup> Source: [www.statsbudsjett.no](http://www.statsbudsjett.no)

<sup>59</sup> Source: St.meld. nr. 3 (2004-2005)

<sup>60</sup> Source: Riksrevisjonens Dokument nr. 1 (2005-2006). [www.riksrevisjonen.no](http://www.riksrevisjonen.no)

<sup>61</sup> Source: Forskrift om offentlige anskaffelser § 6-3.

<sup>62</sup> [ww.doffin.no](http://ww.doffin.no). Act of public procurement §18-4

<sup>63</sup> [ww.doffin.no](http://ww.doffin.no). Act of public procurement §9-1 and §9-2.

In-year budget execution reports are reported monthly to a central agency (The Government Agency for Financial Management), but are not made available to the public. The municipalities are responsible for primary schools and health clinics. The municipalities can decide to have budgets for every service units, but this is not obliged. There are no central regulations to make sure that information on resources available to primary service units are publicized or made available up on request. The actual availability of such information from the municipalities' primary schools and health clinics, have not been further examined as a part of the PEFA assessment.

**Transparency and Comprehensiveness – Performance indicators (PI 5-10)**

<b>Indicator</b>	<b>Score</b>	<b>Brief Explanation</b>
5. Classification of the budget	A	The current classification system is based on an administrative, economic and sub-functional classification. While the classification system in the budget is not a GFS standard, it is considered to be able to produce consistent documentation according to GFS/COFOG standards.
6. Comprehensiveness of information included in budget documentation	A	Documentation includes (i) macroeconomic assumptions, (ii) fiscal surplus, (iii) use of surplus, (iv) debt stock, (v) financial assets, (vi) prior year's budget outturn, (vii) current year's budget in same format (viii) summarised budget data for both revenue and expenditure including the current and previous year and (ix) budget implication of new policies.
7. Extent of unreported government operations	A	(i) The level of unreported extra-budgetary expenditure is assumed to be insignificant (Score=A) (ii) There are no donor-funded projects in Norway. Dimension (ii) is therefore not applicable to Norway.
8. Transparency of inter-governmental fiscal relations	B	(i) More than 90 percent of the transfers to local government are determined by transparent and rules based systems. (Score=A) (ii) The final information to sub-national government is issued late December or at the start of the fiscal year. However the sub-national governments are provided reliable preliminary information on the allocations to be transferred ahead of completing their budget proposal. (Score= B) (iii) Reports of sub-national government revenue and expenditure according to sector categories based on accounting data, is collected and consolidated by Statistics Norway by June the following year. There is no collected and consolidated ex-ante (budget) fiscal information. (Score=C) (Aggregate score=B, scoring method M2)
9. Oversight of aggregate fiscal risk from other public sector entities.	C+	(i) Autonomous government agencies/public enterprises submit fiscal reports to their responsible line ministry at least annually, but a consolidated overview of total risk for central government is missing (Score=C) (ii) Local governments can not generate fiscal liabilities for central government. (Score = A) (Aggregate score= C+, scoring method M1)

Indicator	Score	Brief Explanation
10. Public Access to key fiscal information	B	4 types of information (out of 6) are available to the public in a timely manner

### 3.4 Budget cycle: Policy-based budgeting

#### *The annual budget process (PI-11)*

A first budget calendar is distributed to the ministries in December more than a year before the budget year<sup>64</sup>. Furthermore a final calendar is distributed to the ministries in March/April before the budget year<sup>65</sup>. The calendar is clear and is adhered to. The calendar gives the ministries enough time to meaningfully prepare detailed budget proposals.

The first Budget Conference takes place in March. Here the Cabinet decides on ceilings for each ministry without new policy initiatives and a total ceiling for new policy initiatives<sup>66</sup>. The ministries are informed about their ceiling in a separate letter that precedes the budget circular. The second Budget Cabinet meeting in end of August decides on the distribution of the total on new policy initiatives and the final allocation of the ministries' budgets. The Budget bill is presented to the Parliament in the beginning of October. The legislature approves the budget in mid-December before the budget year<sup>67</sup>.

#### *Multi-year perspective (PI-12)*

*Forecasts* of fiscal aggregates are prepared for three years after the budget year on a rolling annual basis. The forecasts include expenditures for each ministry with details of the main items on the basis of unchanged policy. The forecasts are presented according to economic classification but not classified in current-, financial-, capital operations. Revenue forecasts are presented for main ministries and main items. Tax revenues are presented as aggregates<sup>68</sup>. The use of petroleum income from the Government Pension Fund – Global (*i.e.* the petroleum fund) in the budget in the next three year period is estimated (“The fiscal guideline”)<sup>69</sup>. There is a link between the multi-year forecasts and the annual budget ceilings, as the forecast of unchanged policy is an important element for the setting of the next annual budget ceilings together with the overall fiscal rule. However there is no multi-year framework with functional/sector prioritising, and not a direct link to annual budget sector ceilings. In the government’s view this is not needed as the overall fiscal rule constitutes a meaningful short term, medium term and long term framework for budgeting<sup>70</sup>.

*Fiscal deficit* is financed by transfers from the petroleum fund. An analysis of the sustainability of transfers from the fund is given<sup>71</sup>.

There is no systematic *sector strategies framework* with costing of recurrent and investment expenditure and link to fiscal forecasts. The fiscal forecasts for sectors are made on basis of unchanged policy. Several political sector aims (that are not included in these forecasts) are expressed in e.g. intention statements or in white papers. Some of these include future costing e.g. escalation plans for mental health services (“*psykiatriplan*”), long term plan for

<sup>64</sup> Source: Rundskriv R-9/2005 Retningslinjer for materiale til Regjeringens første konferanse om statsbudsjettforslaget 2007

<sup>65</sup> Source: Rundskriv R-3-2006 Hovedbudsjettsskriv for 2007

<sup>66</sup> Ibid

<sup>67</sup> Source: www.stortinget.no

<sup>68</sup> Source: St.meld. nr. 1 (2005-2006), kap. 10

<sup>69</sup> The fiscal guidelines imply that petroleum income should be phased into the economy on par with the expected real return of the Government Pension Fund, estimated as 4%.

<sup>70</sup> Source: Budgeting in Norway, OECD 2006.

<sup>71</sup> Ibid

military defence, escalation goals for research efforts, national transport plan, escalation plan for day-care services, escalation goals for culture (“*kulturløftet*”), escalation plan for development cooperation and establishing of a new employment and welfare administration<sup>72</sup>. These plans include costing but are not consistent linked with aggregated fiscal forecasts.

The total *investment budget* for 2007 is NOK22 billion, of which the largest are investments in the defence (9.3 billion), state roads (5.4 billion), rail (2.2 billion) and buildings under the auspices of The Directorate of Public Construction and Property - *Statsbygg*<sup>73</sup> (1.6 billion). Investments in petroleum sector are here not included<sup>74</sup>. The state owned hospital investments are financed with grants from the state budget and comes in addition<sup>75</sup>. Parts of the road investments are financed with road tolls and are not a part of the state budget (see indicator PI-7). In addition there are several smaller investments as the ministries are generally free to make priorities between recurrent expenditure, investments and transfers as long as these prioritisations do not cause increased expenditures for subsequent years.

Sectors with a high degree of investments have multi-year plans including recurrent cost implications, and are a foundation for the overall policy choices. The military strategy plan for 2005-2008 and the national transport plan 2006-2015 include estimates for both investments and recurrent expenditure<sup>76</sup>. The investments in these sectors are selected on the basis of these strategies and include recurrent cost implications. Other investments included in the annual budget do usually also include recurrent cost implications. However, there are no sector overall multi-year framework or clear strategy-linked selection criteria for investments with recurrent cost implications included in the annual budget formulation process.

There appears to be incentives in the Norwegian budget process to underestimate costs for capital multi-year projects. Project proponents frequently obtain first-year funding, often based on underestimates, with the goal of getting additional funding in subsequent years, since projects are typically not stopped because of cost overruns. Examples of cost overruns include roads, hospitals, restoration of the royal castle and the new Opera house.<sup>77</sup> The Auditor-General has made reports on this but underestimation of costs is difficult to prove. As a response to such overruns, the Ministry of Finance has initiated a new system for quality assurance for major investment projects. This scheme was introduced in 2000 and extended from 2005.

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<sup>72</sup> Source: St.meld. nr. 1 (2005-2006), Paragraph 10.5

<sup>73</sup> Statsbygg is responsible for properties as government and cultural buildings, colleges and public administration buildings, royal properties, embassies and diplomatic residences abroad

<sup>74</sup> Investments in the petroleum sector has a budget of NOK 18.3 billion

<sup>75</sup> Hospitals and other specialist health care services are organised as independent health trusts under five regional health authorities.

<sup>76</sup> Source: St.prp. nr. 42 (2003-2004) Den videre moderniseringen av Forsvaret i perioden 2005-2008. St.meld. nr. 24 (2003-2004) Nasjonal transportplan 2006-2015.

<sup>77</sup> Economic Review – Norway, OECD January 2007

### *Policy-based Budgeting – Performance indicators (PI 11-12)*

<b>Indicator</b>	<b>Score</b>	<b>Brief Explanation (Scoring Method M2)</b>
11. Orderliness and participation in the annual budget process	A	(i) A clear annual budget calendar exists, is general adhered to and allows ministries enough time to prepare their detailed budget proposals. (Score = A) (ii) Cabinet approves ministry expenditure ceilings before the budget circular is issued. (Score = A) (iii) The legislature has, during the last three years, approved the budget before the start of the fiscal year. (Score = A)
12. Multi-year perspective in fiscal planning, expenditure policy and budgeting	C+	(i) Forecasts of fiscal aggregates are prepared for 3 years on a rolling annual basis. The forecasts include expenditures for each ministry with details of the main items, but are only on the basis of unchanged policy. The aggregates are not presented according to economic classification and there is not a clear link to annual budget sector ceilings. (Score = D) (ii) Analysis of the sustainability of fiscal deficits is undertaken each year. (Score = A) (iii) Sector goals and strategies with costing exist for some sectors, but are not consistent linked with aggregate fiscal forecasts. (Score=C) The majority of important investments are selected on the basis of sector strategies and include recurrent cost implications. (Score=B)

### **3.5 Predictability and control in budget execution**

#### *The revenue collection and management (PI 13-15)*

The Norwegian Tax Administration is responsible for collecting and administering direct and indirect taxes. The legislative basis for taxation and the administrative procedures are *clear and comprehensive*. The regulation does not allow discretion, however, when a tax payer fails to give information to the Tax Administration discretion may be used.<sup>78</sup>

*Information* on taxpayer liabilities is widely available. Up-to-date information on tax liabilities and administrative procedures is posted on the Revenue Authority's (RA) website.<sup>79</sup> Information is also sent to all tax payers every year with information on expected salary and expected tax liability. The information posted on the website is considered to be quite user-friendly. The site has been awarded as the best net service in Norway in 2006 (*Rosingprisen*). In 2006 about 2 of 3.7 million taxpayers delivered their income tax form electronically. The Tax Administration provides guidance and information to business enterprises. Courses have also been held at upper secondary schools.<sup>80</sup>

A *tax appeal mechanism* is functional. It includes several different appeals authorities dependent on the nature of the appeal. Appeals can be made to independent institutions. There is a comprehensive and transparent system with independent tax tribunals, and disputes with the RAs can also be treated within the ordinary court of law. There are many independent appellate bodies, which guaranties the tax payer a complete and fair treatment.

<sup>78</sup> Source: [www.skatteetaten.no](http://www.skatteetaten.no)

<sup>79</sup> Source: [www.skatteetaten.no](http://www.skatteetaten.no)

<sup>80</sup> Source: Norwegian Tax Administration's Annual report for 2004 (user survey)

Taxpayers are registered in a complete database system with comprehensive direct linkages to other relevant government *registration systems* (directory of residents, social security and pension register, shareholders register, official registration and property register) and information from financial institutions (financial assets and liabilities).

The revenue administration can fine taxes at an estimated level and *penalty* taxes if incomplete or wrong information are given by taxpayers. The penalties for non-compliance with registration and declaration obligations have been sufficiently high (up to 60 percent penalty tax). New guidelines from the European Human Rights Convention, and limited capacity in the prosecuting authorities (police), may have weakened the ability to impose strict penalties to some degree. The penalties are fairly and consistently administrated.

*Planning and monitoring of tax audit* and fraud investigation in the Central Tax Administration are managed and reported according to comprehensive and documented audit plans, with clear risk assessments criteria for all major taxes that apply self-assessment. Responsibilities for some monitoring activities are divided between central and local tax authorities (the municipalities), i.e. control of employer's tax payments. The efforts related to these activities may differ between different local tax authorities due to differences in monitoring resources and priorities; however, this has not been examined as a part of the PEFA assessment.

The total amount of *tax collected* were around 99 percent of total claims in 2004 and 2005<sup>81</sup>. The arrears are therefore considered insignificant.

Revenues from income and payroll taxes are collected jointly by central and local governments. For personal taxpayers the returns and payments shall be submitted bi-monthly. Non-personal taxpayers are liable to semi-annual advance payments of income taxes. All income and payroll taxes are paid to accounts controlled by local governments, but every cash balance is *transferred* to accounts controlled by the Treasury daily and placed at the Ministry of Finance disposal. The tax receipts are divided between the central government and the municipalities monthly according to a fixed distribution formula. Indirect taxes (VAT, excise and custom duties) are transferred directly to the Treasury. VAT-returns and payments shall be submitted bi-monthly, while returns and payments for excise and custom duties are submitted monthly. Registered persons with supplies of under NOK 1 million per year may apply to submit VAT returns annually (annual year-end returns).

The local tax collectors are daily reconciling the bank accounts for tax revenues. A complete *reconciliation* of tax assessments, collections and arrears on a national scale takes place every month within 3 weeks after the end of month. The tax authorities prepare complete tax accounts semi-annually, and a complete tax account is presented in a white book on central government accounts 2-3 months after the end of the year. The annual and semi-annual tax accounts correspond to the accumulated monthly tax reconciliations. The tax payers submit annual tax returns (mostly electronically) to the tax authorities as one of the inputs to the final tax assessment.

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<sup>81</sup> Sources: Norwegian Tax Administration's Annual reports for 2004 and 2005

*The revenue collection and management – Performance indicators (PI 13-15)*

Indicator	Score	Brief Explanation (Scoring Method M2 for PI-13 and 14)
13. Transparency of taxpayer obligations and liabilities	A	(i) The legislative basis for taxation is clear with strictly limited discretionary powers (score=A). (ii) Taxpayers have easy access to comprehensive, user-friendly and up-to-date information on tax liabilities and administrative procedures. The Tax Administration also conducts information campaigns (score=A). (iii) Comprehensive system with independent tax tribunals parallel to treatments within the ordinary court of law (score=A).
14. Effectiveness of measures for taxpayer registration and tax assessment	A	(i) Taxpayers are registered in a complete database system with comprehensive direct linkages to other relevant government registration systems and information from financial institutions (score=A). (ii) Penalties for non-compliance have been sufficiently high and are consistently administrated (score=A). (iii) Planning and monitoring of tax audit and fraud investigation in the Central Tax Administration are managed and reported according to comprehensive and documented audit plans, with clear risk assessments criteria for all major taxes that apply self-assessment. Monitoring efforts may differ between different local tax authorities, however this has not been examined as a part of the PEFA assessment (score=A).
15. Effectiveness in collection of tax payments	A	(i) Tax arrears are considered insignificant (score=A). (ii) Indirect taxes are paid directly to accounts controlled by the Treasury. Direct taxes are paid accounts controlled by local governments, every cash balance are transferred to accounts controlled by the Treasury daily (score=A). (iii) Complete reconciliation of tax assessments, collections arrears and transfers takes place monthly within 3 weeks after the end of month (score=A) (Aggregate score= A, scoring method M1)

*The cash management (PI 16-17).*

The Ministry of Finance is in charge of cash management, and the Central Bank of Norway is in charge of controlling the cash reserve on behalf of the Ministry of Finance. This includes making *prognosis* for the cash reserve.<sup>82</sup> Cash flow forecast is prepared for the fiscal year, and are updated daily by the Central Bank on the basis of actual cash inflows and outflows. The cash flow forecast is made for the total money market in Norway, not only for the cash flow in state accounts. The level of cash reserves for the money market is planned to normally not fall under NOK25 billion<sup>83</sup>.

<sup>82</sup> Source: St. prp. nr. 7 (2006-2007), kap. 1.

<sup>83</sup> Source: Ibid, kap. 2

The budget is always voted by Parliament before the start of the budget year. The line ministries are therefore authorised to commit expenditure from 1 January. There are no limitations to the *timing of the payments* within the budget year.

*In-year adjustments* to the budget are regulated in the appropriation regulations<sup>84</sup>. It requires a new parliamentary resolution to change the budget appropriations. However The King in council and the Ministry of Finance have some limited defined authority to agree on budget adjustment. The King in council can, if some conditions are met (e.g. unanticipated events), agree on exceeded expenditures within a limit of NOK5 million (USD0.8 million). Furthermore a higher amount can be agreed on if this is “unavoidable” needed<sup>85</sup> to be committed before the Parliament can approve this. The Ministry of Finance can agree on minor expenditures (limited to NOK2 million per budget sub line level) if the commitments are not of principal nature.

The regulations do not hinder the ministries to propose in-year adjustments for the Parliament any time during the year. However it has been developed a practise to try to have the proposals for in-year adjustments twice a year. Firstly, by a budget revision that is proposed to Parliament in May and decided by Parliament by the end of June. Secondly, by a revision that is proposed to Parliament in late November and decided by Parliament in mid-December. The proposals are thoroughly considered by the Ministry of Finance and are discussed in Cabinet.

*Debt data* records are completed, currently updated and reconciled on a monthly basis with data considered of high integrity. Comprehensive management and statistical reports (cover debt service, stock and operations) are produced quarterly<sup>86</sup>.

All *cash balances* in government bank accounts are identified, calculated and consolidated daily. The Ministry of Finance has agreements with the Central Bank about the state account systems and has agreements with three private banks concerning payment services. There is a single treasury account structure in the Central Bank for operating payment services related to state budget revenues, expenditure and state bond finance (“Statens konsernkontoordning”). All agencies have a number of sub-accounts at the Central Bank. There are appropriation limits and financial limits for the responsible agency payments authorised by the responsible line ministry.<sup>87</sup>

No guarantees of *loans* can be given without priori decision by the Parliament. This is done as a part of the budget process. An overview of proposed new guarantees and the limits are presented in the budget document from the Ministry of Finance<sup>88</sup>. Furthermore all existing public guarantees on private loans are reported in an appendix to the governmental annual financial statement<sup>89</sup>. Normal terms for guarantees are given in the general government regulations<sup>90</sup>, but the Parliament has accepted exceptions from the normal terms for several guarantees<sup>91</sup>. The detailed terms for the separate guarantees is presented in the budget document to the responsible line minister.

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<sup>84</sup> Source: St.prp. nr. 48 (2004-2005) Om bevilgningsreglementet.

<sup>85</sup> “Uomgjengelig nødvendig”

<sup>86</sup> Source: The Ministry of Finance, Dept Management Office

<sup>87</sup> Source: St.prp. nr. 7 (2006-2007) and [www.odin.dep.no/fin](http://www.odin.dep.no/fin)

<sup>88</sup> Source: St.prp. nr. 1 (2005-2006), 6.2, The Ministry of Finance

<sup>89</sup> Source: St.meld. nr. 3 (2004-2005), 4.3

<sup>90</sup> Source: Bestemmelser om økonomistyring i staten, Dec. 2003, The Ministry of Finance

<sup>91</sup> Source: St. prp. nr. 1 (2005-2006), Paragraph 6.2, The Ministry of Finance



The Parliament authorises every year the limits for central government's *borrowing* before the start of the budget year<sup>92</sup>. The state is in a positive net asset position; the total assets are higher than the total liabilities. The overall budget deficit without petroleum revenues, according to the budget guidelines, is financed by transfers from the Government Pension Fund – Global (*i.e.* the petroleum fund). All government borrowing is in the domestic market. The management of debt is centralized to the Ministry of Finance. The criteria of contracting of loans are presented in an annual document to the Parliament<sup>93</sup>.

***The cash management – Performance indicators (PI 16-17)***

<b>Indicator</b>	<b>Score</b>	<b>Brief Explanation</b>
16. Predictability in the availability of funds for commitment of expenditures	A	(i) Cash flow forecasting is made by the Central Bank and updated daily. (Score = A) (ii) Line ministries are authorised to spend their appropriation without limits on the timing of the payment. (Score = A) (iii) Adjustments to budgetary allocations are generally made through issuing of a revised budget twice per year and are done in a transparent and predictable way. (Score = A) (Aggregate score= A, scoring method M1)
17. Recording and management of cash balances, debt and guarantees	A	(i) Debt data records are complete, updated and reconciled on a monthly basis with data considered of high integrity. Comprehensive management and statistical reports are produced quarterly. (Score=A) (ii) All cash balances are calculated daily and consolidated. (Score=A) (iii) No guarantees of loans can be given without priori decision by the Parliament (as a part of the budget process). Overview of new guaranties and the detailed terms are reported in the budget documents. The limits for central governments borrowing are authorised by the Parliament. The contracting of loans is made against transparent criteria and fiscal targets and the management is centralized to the Ministry of Finance. (Score=A) (Aggregate score= A, scoring method M2)

***Payroll, procurement and internal control (PI 18-21)***

The general government regulation includes *payroll systems*, procedures and control activities<sup>94</sup>. Each agency is responsible to establish systems and procedures that ensure that payroll is been registered, calculated, recorded, disbursed and reported. The agencies have payroll systems that are supported by documentation for changes made to personnel records each month. These systems usually include and reconcile with an employee time register system. The Office of the Auditor General has rarely comments on the payroll systems. The Government Agency for Financial Management served around 400 agencies with payroll systems in 2005 (70 percent of state agencies)<sup>95</sup>. In addition there is an overall central

<sup>92</sup> Source: St. prp. nr. 7 (2006-2007)

<sup>93</sup> Source: Ibid, paragraph 2

<sup>94</sup> Source: Bestemmelser om økonomistyring i staten. The Ministry of Finance

<sup>95</sup> Source: The Government Agency for Financial Management, Annual report 2005.

personnel registers (database) of all staff in the state agencies<sup>96</sup>. This register is mainly used to statistical purposes, and is not direct linked to the agencies own payroll systems.

Required *changes* to personnel records and payroll are updated monthly, generally in time for the following month's payments. Retroactive adjustments are rare<sup>97</sup>. *Authority* and basis for changes to personnel records and the payroll are clear. The Office of the Auditor General's annual external audit also covers payroll *audits*. This includes systematic controls on authority given and log reports from the payroll systems and an audit on whether the agencies have control weaknesses (or ghost workers)<sup>98</sup>.

The national regulations for *public procurement* have recently been updated (1 January 2007) with an implementation of revised European Commission directive for public procurement. The national regulations require open procurement competition for contracts above the nationally threshold of NOK0.5 million (USD80 000). The start up of the competition are to be published, but there is no comprehensive statistics of contract awards for contracts above the nationally threshold<sup>99</sup>. There is statistics of the number (not the value) of contracts awards above the value of NOK1.1 million (USD178 000)<sup>100</sup>. The principal (the employer) is obliged to report within 48 days after contract award. However the statistics does not make it possible to estimate the *use of open competition* for award of contracts compared with the total of contract awards.<sup>101</sup>

The national regulations require that the use of other *less competitive methods* is to be justified. In cases with complains from competitors, the method used will be examined. The Office of the Auditor General has several comments on shortcomings in routines and documentations in the governmental agencies<sup>102</sup>.

An independent agency for *complaints* on public procurement was established in January 2003 (*Klagenemnda for offentlige anskaffelser*). The setting up of the agency is regulated by law and government regulations have been established to regulate the functioning of the agency. Information of all complaints received and on all decisions made is available on the website of the agency.<sup>103</sup>

Each agency is responsible to establish systems and procedures for *expenditure commitment controls*.<sup>104</sup> There are no cash availability limits but there are appropriation limits authorised by the responsible line ministry (approved budget allocations, as revised). Comprehensive expenditure commitment controls are generally in place.

There are general government *regulations* for systems, procedures and control activities<sup>105</sup>. The Norwegian Government Agency for Financial Management advises the central government agencies on internal control and has published a guidance document on risk management<sup>106</sup>. Risk management procedures are gradually been implemented in most of the agencies.<sup>107</sup>

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<sup>96</sup> Source: *Statens Sentrale Tjenestemannsregister (SST)*, St.prp. nr.1 (2005-2006), Appendix 3

<sup>97</sup> Source: The Office of the Auditor General (*Riksrevisjonen*)

<sup>98</sup> Source: *Ibid*

<sup>99</sup> Source: Act of public procurement, §2-2.

<sup>100</sup> Source: Act of public procurement, §18.

<sup>101</sup> Source: Eva Carina Aune, Senior Adviser, Ministry of Government Administration and Reform

<sup>102</sup> Source: *Riksrevisjonens* Dokument nr. 1 (2006-2007), Dokument nr. 1 (2005-2006), Dokument nr. 1 (2004-2005)

<sup>103</sup> Source: [www.kofa.no](http://www.kofa.no)

<sup>104</sup> Source: *Bestemmelser om økonomistyring i staten*. The Ministry of Finance

<sup>105</sup> Source: *Bestemmelser om økonomistyring i staten*, paragraph 5. The Ministry of Finance

<sup>106</sup> Source: *Risikostyring i staten*. Dec. 2005. The Ministry of Finance

<sup>107</sup> Source: The Office of the Auditor General (*Riksrevisjonen*).

*Compliance* with rules is high and any misuse of simplified and emergency procedures is insignificant of compliance with rules for processing and recording transactions. The Office of the Auditor General rarely comments on these issues<sup>108</sup>.

Line ministries are responsible for ensuring that agencies perform a control of operations. The agencies are to establish internal control but have the flexibility to establish their own systems of internal control. The general government regulations says that monitoring, implementation, control and management in the dialog between the ministries and the agencies and the internal control in the agencies, are to be adapted to the agencies distinctive character, risks and essentiality<sup>109</sup>. *Internal audit* is no longer mentioned in the government regulations. Several of the largest agencies and the state hospitals companies have internal audit units or audit systems, but many other agencies do not<sup>110</sup>. The ministries do not have internal audit units.

There are no central rules for *reporting* of internal audit reports<sup>111</sup>. The largest agencies report to their management in the agency, but do not submit internal audit reports to their line ministry, the Ministry of Finance or to the Office of the Auditor General<sup>112</sup>. Since there is limited internal audit reporting, the extent of management *response* to internal audit findings has not been examined. However twelve agencies received repeated comments on the same issues from the external audit in 2005 and 2004<sup>113</sup>. This may indicate that not all managers have prompt and comprehensive action on internal audit findings.

***Payroll, procurement and internal control (PI 18-21)***

<b>Indicator</b>	<b>Score</b>	<b>Brief Explanation</b>
18. Effectiveness of payroll controls	A	(i) Personnel database and payroll are directly linked to ensure data consistency and monthly reconciliation. (Score=A) (ii) Required changes are updated monthly, generally in time for the following month's payments. Retroactive adjustments are rare. (Score=A) (iii) Authority to change records and payroll is restricted and results in an audit trail (Score=A) (iv) A system of annual payroll audits exists to identify control weaknesses and/or ghost workers (Score=A) (Aggregate score= A, scoring method M1)

<sup>108</sup> Source: Ibid.

<sup>109</sup> Source: Reglement for økonomistyring i staten (§4) med bestemmelser. The Ministry of Finance

<sup>110</sup> Source: Risk management in the state by Marianne Andreassen, Director, The Norwegian Government Agency for Financial Management. Article in the magazine "The internal auditor" (*Internrevisoren* 1/2006). Internal audit units e.g. in The Norwegian Tax Administration (*Skattedirektoratet*), The Central Bank (*Norges Bank*), The Directorate of Labour and Welfare (*Arbeids- og velferdsetaten*), Norwegian Directorate of Immigration (*Utlendingsdirektoratet*).

<sup>111</sup> Source: Reglement for økonomistyring i staten med bestemmelser. The Ministry of Finance.

<sup>112</sup> Source: The Office of the Auditor General (*Riksrevisjonen*).

<sup>113</sup> Dok. nr. 1 (2005-2006). S. 19. The Office of the Auditor General (*Riksrevisjonen*)

Indicator	Score	Brief Explanation
19. Competition, value for money and controls in procurement	B	<p>(i) There is statistics of the number (not the value) of contracts awards above the value of NOK1.1 million (USD178 000), but the data does not make it possible to estimate the use of open competition for award of contracts compared with total contract awards (Score=D).</p> <p>(ii) Other less competitive methods when used are usually justified in accordance with clear requirements, however the Office of the Auditor General has several comments on shortcomings in routines and documentations in the governmental agencies (Score = B).</p> <p>(iii) An independent agency for complaints on public procurement is operative and detailed information on its decisions is easily available (Score = A).</p> <p>(Aggregate score= C+, scoring method M2)</p>
20. Effectiveness of internal controls for non-salary expenditure	A	<p>(i) Comprehensive expenditure commitment controls are in place and effectively limit commitments to approved budget allocations (Score=A)</p> <p>(ii) Other internal control rules and procedures are relevant (based on a risk assessment), and incorporate a comprehensive and generally cost effective set of controls and are widely understood (Score=A)</p> <p>(iii) Compliance with rules is high and misuse of simplified and emergency procedure is insignificant (Score=A)</p> <p>(Aggregate score= A, scoring method M1)</p>
21. Effectiveness of internal audit	D	<p>(i) The ministries do not have internal audit units. Only the largest agencies have internal audit units or internal audit systems (score=D)</p> <p>(ii) The largest agencies report to their management in the agency, but do not submit internal audit reports to their line ministry, The Ministry of Finance or to the Office of the Auditor General (score=D)</p> <p>(iii) The extent of actions on internal audit findings is uncertain. Twelve agencies received repeated comments on same issues from the external audit in 2004 and 2005 (score=D)</p> <p>(Aggregate score= D, scoring method M1)</p>

### 3.6 Accounting, reporting and recording

#### *Timeliness and regularity of accounts reconciliation (PI-22)*

There are no central rules for the timeliness and regularity of *accounts reconciliation*. Each agency accounts for its own transactions. Bank reconciliations for all central government bank accounts take place at least monthly at aggregate and detailed level, within 4 weeks of end of period<sup>114</sup>.

Each agency accounts for its own reconciliation and clearance of *suspense accounts and advances*. There are no central rules and no central information on the practice in the

<sup>114</sup> Source: Ministry of Finance and the Office of the Auditor General (*Riksrevisjonen*).

different agencies<sup>115</sup>. Reconciliation and clearance of suspense accounts and advances take place at least annually, within two months from the end of period and with few balances brought forward<sup>116</sup>.

#### *Availability of information on resources received by service delivery units (PI-23)*

The municipalities are responsible for primary schools and health clinics. The municipalities can decide to have budgets for every service unit, but this is not obliged. There is information of the number of school personnel (man-years) for every school<sup>117</sup>, but there is no central collected information or statistics on total resources received by primary service units. The statistics only covers reports of sub-national government expenditure according to sector categories for each municipality in total (KOSTRA, see PI-8 iii)). There is no central regulation to make sure that information on resources available to primary service units are publicized or available up on request. The actual availability of such information from the municipalities' primary schools and health clinics, have not been further examined as a part of the PEFA assessment.

#### *Quality and timeliness of in-year budget reports (PI-24)*

In-year budget execution reports use *classification* that allows direct comparison with the original budget. The reports include all items included in the budget, and are available for the agencies and ministries.<sup>118</sup> The reports compare payment with the actual in-year budget (original budget the first months, then the Parliaments revised budget). Expenditure is reported at the payment stage and generally do not cover expenditure at the commitment stage, only for some agencies. It is the responsibility of the line ministry to analyse the figures and to take any future action needed to control spending of its agencies.

Reports are prepared on a *monthly* base. The reports are issued within 4 weeks of end of period. There is no material concerns regarding *accuracy of the data* included in the in-year budget execution reports<sup>119</sup>.

#### *Quality and timeliness of annual financial statements (PI-25)*

The annual financial statements include details of revenue and expenditure for central government. The statements also include information on central government's assets and liabilities<sup>120</sup>. Consolidated financial statements are prepared by the Ministry of Finance annually by the end of April. All statements are presented in a consistent format according to detailed national accounting standards established by the Ministry of Finance<sup>121</sup>.

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<sup>115</sup> The regulations for travels require travel receipt to be passed to the employer/principal within one month after the end of travel. Advance on expenses can be given.

<sup>116</sup> Source: Office of the Auditor General (*Riksrevisjonen*).

<sup>117</sup> Source: [www.skoleporten.no](http://www.skoleporten.no)

<sup>118</sup> Source: Monthly budget reports seen in The Ministry of Finance.

<sup>119</sup> Source: Ministry of Finance and the Office of the Auditor General (*Riksrevisjonen*).

<sup>120</sup> Source: St.meld. nr. 3 (2005-2006)

<sup>121</sup> Source: Bestemmelser om økonomistyring i staten

### *Accounting, reporting, and recording (PI 22-25)*

<b>Indicator</b>	<b>Score</b>	<b>Brief Explanation</b>
22. Timeliness and regularity of accounts reconciliation	B+	(i) Bank reconciliation for all central government bank accounts take place at least monthly, within 4 weeks of end of period. (Score=A) (ii) Reconciliation and clearance of suspense accounts and advances take place at least annually, within two months from end of period and with few balances brought forward (Score= B) (Aggregate score= B+, scoring method M2)
23. Availability of information on resources received by service delivery units	D	There is no central regulation to make sure that information on resources available to primary service units are publicized or available up on request.
24. Quality and timeliness of in-year budget reports	C+	(i) Classification of in-year budget execution reports at payment stage allows comparison to the budget. However the data usually don't include expenditure at commitment stage (Score = C) (ii) Reports are prepared on a monthly base, and are issued within 4 weeks of end of period. (Score=A) (iii) There are no material concerns regarding data accuracy (Score=A) (Aggregate score= C+, scoring method M1)
25. Quality and timeliness of annual financial statements	A	(i) Consolidated financial statement for central government are prepared and includes full information on revenue, expenditure and financial assets/liabilities (Score = A) (ii) The annual statements are submitted within four months of year-end (Score = A) (iii) All statements are presented in a consistent format according to detailed national accounting standards (Score = A) (Aggregate score= A, scoring method M1)

### **3.7 External scrutiny and audit**

#### *Scope, nature and follow-up of external audit (PI-26)*

All entities of central government are audited annually. The audit covers revenue, expenditure and assets/liabilities<sup>122</sup>. Performance audits are undertaken for a number of entities/issues<sup>123</sup>. The work of the Office of the Auditor General is based on INTOSAI's auditing standards<sup>124</sup>.

Financial statements for the previous year are prepared by the government by 30 April each year. The Office of the Auditor General's report is normally released in November the same year. Hence, the auditing takes less than 7 months<sup>125</sup>.

<sup>122</sup> Source: Riksrevisjonens Dokument nr. 1 (2006-2007)

<sup>123</sup> Source: www.riksrevisjonen.no

<sup>124</sup> Source: Standarder for revisjon i Riksrevisjonen

<sup>125</sup> Source: Riksrevisjonens Dokument nr. 1 (2006-2007), Dokument nr. 1 (2005-2006), Dokument nr. 1 (2004-2005)

The audit of the financial statements of the budget year 2005 had 210 ended audits without comments and 23 audits with comments. The report of the auditor general includes information on the ministries' follow-up of earlier comments made by the auditor general. The Office of the Auditor General's comments are generally followed up by the agencies. However twelve agencies received repeated comments on the same issues from the Office of the Auditor General in 2005 and 2004<sup>126</sup>.

#### *Legislative scrutiny of the annual budget law (PI-27)*

The Parliament's review of the budget proposal covers the macroeconomic framework and medium term macroeconomic outlook, and details of expenditure and revenue<sup>127</sup>. Medium term priorities are not reviewed by Parliament as they are not presented by the government. The Parliament has established procedures for the budget review and decision making. The procedures include organisational arrangements such as review of the budget by the standing committees<sup>128</sup>. The government's budget proposal is presented to Parliament in early October. Parliament must vote on the budget no later than 15 December. Hence, Parliament has more than 2 months to review the proposal.<sup>129</sup>

The government generally does not have the authority to make budget amendments without ex-ante approval by Parliament. However, minor budget increases, below approximately NOK5 million (USD0.8 million), that are regarded as uncontroversial, can be decided by the government. In cases where there is an urgent need to increase the budget, e.g. due to fire, accidents or other acute situations, the government may also decide on budget increase without prior approval by Parliament. However, in such cases an ex-post proposal must be made to Parliament as soon as possible. In all other cases Parliament's ex-ante approval must be sought before amending the budget.<sup>130</sup> The rules are respected.

#### *Legislative scrutiny of external audit reports (PI-28)*

The auditor general's detailed annual audit report for the previous year is generally sent to Parliament in November. One of the standing committees (Control and Constitutional Committee) examines the report and the scrutiny is generally completed in March or April the following year. Hence, the scrutiny takes 4-5 months<sup>131</sup>.

When preparing the audit report the Office of the Auditor General sends the findings to each ministry. The ministries' responses are included in the audit report and reviewed by Parliament<sup>132</sup>. The Parliament generally does not conduct *hearings* on the key findings of the Office of the Auditor General. However, in the first half of 2007 the Parliament conducted three hearings on special issues where four responsible cabinet ministers and two agency leaders had to participate in the hearings<sup>133</sup>.

The Parliament generally comments on the findings of the Office of the Auditor General in a report. Parliament does not approve the audit report as such, but can ask the Office of the

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<sup>126</sup> Source: Dok. nr. 1 (2006-2007). S. 19. Riksrevisjonen

<sup>127</sup> Source: B.innst.S. nr.1 (2005-2006) Innstilling fra finanskomiteen om Nasjonalbudsjettet for 2006 og forslaget til statsbudsjett for 2006

<sup>128</sup> Source: www.stortinget.no. Stortingets forretningsorden

<sup>129</sup> Ibid

<sup>130</sup> Source: Veileder – Statlig budsjettarbeid

<sup>131</sup> Source: Innst. S. nr. 114 (2005-2006), Innst. S. nr. 155 (2006-2007), www.stortinget.no

<sup>132</sup> Source: Riksrevisjonens Dokument nr. 1 (2005-2006)

<sup>133</sup> Source: Hearings on Mesta AS (Road constructions public enterprise), IKT safety in trygdeetaten (social security agency) and The Ministry of Child and Gender's management of Barne-, ungdoms- og familieetaten (child welfare agency), February 2007, Innst. S. nr. 155 (2006-2007)

Auditor General to look closer into some issues of special concern<sup>134</sup>. Recommendations from the Parliament based on the audit report are generally not given directly to the executive (e.g. “The Committee takes note on the external auditor’s comments on...”), but do occur (e.g. “The Committee presume that adjusting commented shortcomings is given high priority...”<sup>135</sup>). However, the executive will take note of the criticism and generally address the findings of the Office of the Auditor General. The *follow-up* by the executive will be commented by the Office of the Auditor General in next year’s audit report. However twelve agencies received repeated comments on same issues from the Office of the Auditor General in 2005 and 2004<sup>136</sup>.

**External scrutiny and audit (PI 26-28)**

<b>Indicator</b>	<b>Score</b>	<b>Brief Explanation (Scoring Method M1)</b>
26. Scope, nature and follow-up of external audit	B+	(i) All entities of central government are audited annually by financial audit. Performance audits are also undertaken (Score = A). (ii) The audit report is prepared within 7 months after the release of the accounts (Score = B). (iii) The audit report includes a report of the ministries’ follow-up of earlier audits. Twelve agencies received repeated comments on same issues from the external audit in 2005 and 2004 (Score = B).
27. Legislative scrutiny of the annual budget law	B+	(i) The legislature reviews detailed estimates of expenditure and revenue as well as the macroeconomic framework and outlook. Medium term priorities are not reviewed by Parliament as they are not presented by the government. (Score = B) (ii) Procedures for the budget review, including organisational arrangements, exist and are respected. (Score = A) (iii) The legislature has more than 2 months to review the budget. (Score = A) (iv) Clear rules exist for amending the budget and are respected. (Score = A)
28. Legislative scrutiny of external audit reports	C+	(i) Scrutiny of the audit reports generally takes 4-5 months (Score = B) (ii) In-depth hearings are generally not conducted, but three in-dept hearings were conducted by the Parliament in 2007. (Score =C) (iii) Recommendations of actions from the Parliament are generally not issued directly to the executive, but do occur. However, the Parliament usually takes note of the comments from the Office of Auditor General. The executive generally follow up on the findings of the Office of the Auditor General, with some exceptions of repeated comments. (Score = C)

<sup>134</sup> Source: Innst. S. nr. 114 (2005-2006). (The Parliamentary resolution is that the Auditor General’s audit report is enclosed to the Parliament’s minutes)

<sup>135</sup> Source: Innst. S. nr. 155 (2006-2007), IKT safety in trygdestaten (social security agency)

<sup>136</sup> Dok. nr. 1 (2005-2006). S. 19. Riksrevisjonen



### 3.8 Petroleum revenue management

The exploration and production of petroleum resources on the Norwegian continental shelf is important to Norwegian economy. Norway's petroleum industries, including crude oil and gas extraction, accounted for about 24 percent of GDP and about 48 per cent of exports in 2007<sup>137</sup>. Norway ranks in 2007 as the world's fifth largest oil exporter, and the eleventh largest producer. As a small economy with significant revenues from export of petroleum, Norway faces some of the same fiscal and monetary policy challenges as natural resources dependent developing countries do, as well as challenges in good revenue management.

This section seeks to give an overview of the Norwegian management of revenues from petroleum with a special emphasis on fiscal transparency. This is done by reference to the IMF's Guide to Resource Revenue Management (2007) and by using information from an IMF survey of Norway from April 2008.<sup>138</sup> IMF's good practice on fiscal transparency is based on four general principles: (1) clarity of roles and responsibilities, (2) open budget processes, (3) public availability of information, and (4) assurances of integrity.<sup>139</sup> The IMF's guideline on good practices in resource revenue management has several relevant links to the general PEFA indicators on public finance management.<sup>140</sup>

#### *Clarity of Roles and responsibilities*

The Storting (the Norwegian parliament), establishes the framework for Norwegian petroleum activities. Major development projects or matters of great public importance must be discussed by the Storting. The Storting also supervises the government and the public administration.

The government holds the executive power over petroleum policy and is responsible vis-à-vis the Storting for this policy. In applying the policy, the government is supported by the ministries and subordinate directorates and agencies. The responsibility for executing the various roles within the petroleum policy is shared as follows:

- The Ministry of Petroleum and Energy: responsible for resource management and for the sector as a whole
- The Ministry of Labour and Social Inclusion: responsible for health, environment and safety
- The Ministry of Finance: responsible for central state revenues
- The Ministry of Fisheries and Coastal Affairs responsible for oil spill contingency measures
- The Ministry of the Environment: responsible for the external environment.

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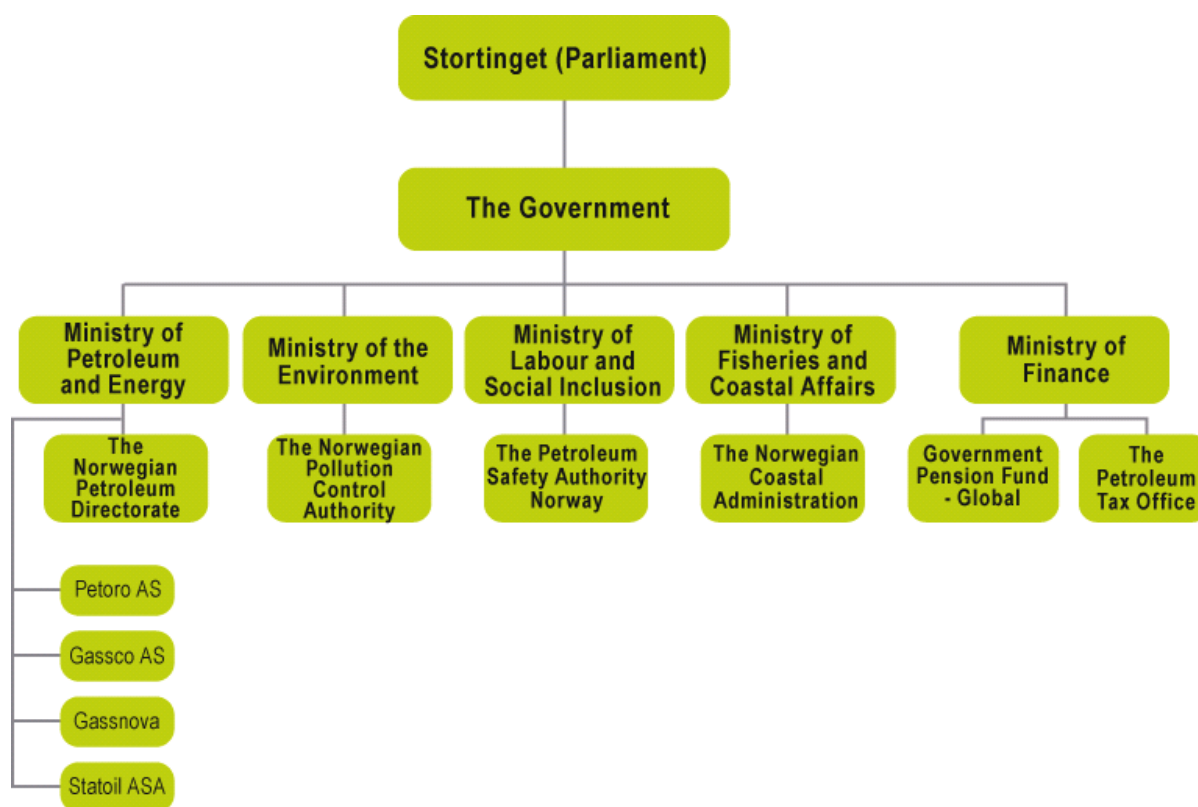
<sup>137</sup> Source: Ministry of Finance

<sup>138</sup> The resource revenue survey is a part of an IMF fiscal ROSC (Report on the Observance of Standards and Codes) on Norway. IMF is planning a mission in Norway in June 2008.

<sup>139</sup> Source: IMF's Revised Guide on Resource Revenue Transparency (2007). [www.imf.org](http://www.imf.org)

<sup>140</sup> Links to PEFA performance indicators are e.g. aggregate revenue (PI-3), comprehensiveness and transparency (e.g. PI 6-10), policy-based budgeting (PI 11-12), tax management (PI 13-15), accounting and reporting (PI 24-25) and external scrutiny and audit (PI 26, PI 28)). The approach using IMF Guide on resource revenue in a PEFA Performance Report is also used in Azerbaijan PEFA assessment (Report 2008).

**Figure 3.1 The institutions and roles within the petroleum policy**



### *Legal framework for resource management – the concession system*

Petroleum operations in Norway are based on a licensing system<sup>141</sup>. The [Petroleum Act](#)<sup>142</sup> states that the Norwegian State has the *proprietary right* to subsea petroleum deposits and the exclusive right to resource management. Resource management is executed by the Government in accordance with the provisions of this Act and decisions made by the Storting (Parliament). The Act and its regulations provide the general legal basis for the *licensing system* which regulates Norwegian petroleum activities and authorise the award of licences to explore for, produce and transport petroleum, etc.

Production licenses are normally awarded through licensing rounds. The government announces a certain number of blocks for which an application for a production licence may be made. Applicants may apply individually or in groups. License awards are based on impartial, objective, non-discriminatory and published criteria. On the basis of applications received, the Ministry of Petroleum and Energy puts together a group of companies for each licence or can make adjustments to a group which has submitted a joint application. The Ministry of Petroleum and Energy appoints an operator for this partnership, who is responsible for carrying out the day to day activities under the terms of the licence. The licensees then enter into an agreement which regulates the relationship between them, to be approved by the Ministry of Petroleum and Energy. There are no up front payments for licence awards.

<sup>141</sup> In the concession system the participating oil companies obtain a concession or a licence by the state at certain terms and conditions, most of which are fixed by legislation. Another common way to regulate petroleum operations is through a contractual system (i.e. Production Sharing Agreements), with most terms and conditions set by contract rather than legislation.

<sup>142</sup> Act 29 November 1996 No. 72 relating to petroleum activities. Last amended by Act 14 December 2001 No 98, 28 June 2002 No 61, 20 December 2002 No 88 and 27 June 2003 No 68.

The production licence regulates the rights and obligations of licensees in relation to the state. This document supplements the provisions of the Petroleum Act and specifies detailed terms for each licence. The licence provides an exclusive right for exploration, exploration drilling and the production of petroleum within the geographical area specified in the production licence. Ownership of the petroleum produced rests with the licensees.

### *Fiscal regime*

The fiscal regime (the Government take system) in Norway mainly consists of a petroleum tax system and the State Direct Financial Interest (SDFI, managed by Petoro AS).

The legal basis for *taxation* of petroleum activities is the Petroleum Tax Act<sup>143</sup> and supplementary regulations. The tax rules (the Act and regulations) are presented to the public comprehensively<sup>144</sup>. The tax base is the net surplus. All relevant expenses can be deducted to arrive at taxable net income. The first charge is the ordinary corporate tax of 28 percent which is applicable for all companies in Norway. After subtracting an investment based uplift (or extra depreciation), the adjusted net income is taxed at the Special Tax rate of 50 percent. The marginal tax rate on Norwegian Shelf income is thus 78 percent. It's also levied a CO<sub>2</sub> and a NOx tax with the objective to reduce emissions from the activities on the shelf and an area fee (all these are deductible). The Petroleum Tax is paid to the central government only.

*SDFI* is an arrangement whereby the state keeps an interest in a number of oil and gas fields, pipelines and onshore facilities. Each interest is decided when licenses are awarded, and the size of the state interest varies. As one of several licensees, the state pays its share of investments and costs, and receives a corresponding *share of the gross income* from the license. The government-owned public company *Petoro AS* manages the State's direct financial interest (SDFI). The Storting (parliament) votes on the SDFI's budget and framework on an annual basis. Income, expenses and investments in the SDFI are thereby channeled directly over the central government budget.

The government also receives *dividends* from StatoilHydro, which is a public and listed company where the Central government currently owns 62.5 percent of the shares. Production sharing contracts are not used in the fiscal regime for the petroleum sector. Royalty was phased out for the last two fields (Oseberg and Gullfaks) in 2005, and from 2006 there is no royalty on the Norwegian Continental Shelf.

### *Policy and regulatory roles and resource companies*

The *ministries*, the directorate and the resource companies play different roles in the petroleum sector. The policy and licensing as well as petroleum taxation and related fiscal issues are the responsibility of the government of Norway (Ministry of Petroleum and Ministry of Finance). The Petroleum *Directorate* provides advice to the Ministry of Petroleum (and reports on) technical matters, manages technical data, and enforces technical regulations. Furthermore the Ministry of Petroleum is a major shareholder in the petroleum *company* StatoilHydro. StatoilHydro is a public company listed both on the New York Stock Exchange and on Oslo Stock Exchange, and there are no non-commercial obligations placed on the company's activities<sup>145</sup>.

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<sup>143</sup> Act 13 June 1975 No 35 on Taxation of Subsea Petroleum Deposits. The Petroleum Tax Act is supplement to the General Tax Act and the two are internally consistent.

<sup>144</sup> <http://www.lovdatab.no/all/hl-19750613-035.html>

<sup>145</sup> The "Norwegian Trinity Model", see McPherson (2003, p. 200) and IMF's Guide on Resource Revenue (p.23)

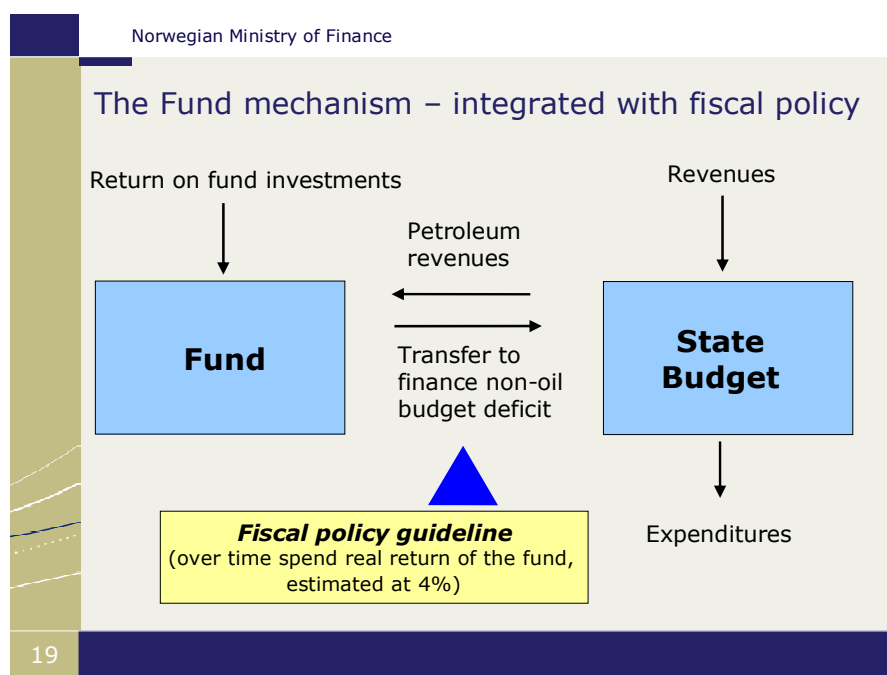
The Ministry of Petroleum and Energy is also responsible for management of SDFI and Petoro AS. Petoro holds the responsibility for and attends to the commercial aspects related to SDFI. Petoro is the licensee for, not the owner of, the SDFI shares on the Norwegian Continental Shelf; hence Petoro does not act as an ordinary oil company. Petoro does not participate in any non-commercial operations<sup>146</sup>.

### Open budget processes

The revenues and expenditures for the governmental petroleum activities are integrated in the *budget framework* and the budget process in the same manner as other revenues and expenditures. No resource-related funds can be spent without government approval. There is no right to borrow on behalf of the government for resource sector specific purposes.

Total net revenue from the petroleum sector is directly transferred from the fiscal budget into the Government Pension Fund-Global (before 2006 called the Petroleum Fund, hereafter called *The Fund*). The Fund is fully integrated with the budget. An amount to cover a non-oil deficit is transferred back to the fiscal budget so that the formal fiscal budget will always be balanced. The structural non-oil budget deficit is used as an estimate for the underlying spending of petroleum revenues, and is an important measure for fiscal policy making. The *fiscal guideline* stipulates that over time the expected real return of the Fund, estimated at 4 percent, shall be transferred to the budget each year, see section 2.3.<sup>147</sup>

**Figure 3.2 The Fund mechanism and the state budget**



The Ministry of Finance is responsible for the *management of the Fund*. The Ministry determines the general investment strategy of the Fund, as well as its ethical and corporate governance principles. The investment strategy is formulated by setting a defined benchmark with risk limits, while the operational management has been delegated to Norges Bank (the central bank of Norway). To facilitate sound management of petroleum revenues, a fundamental principle is that the Fund is only invested abroad. The strategic asset allocation

<sup>146</sup> For Petoro's commercial activities, see: [Petoro AS](#)

<sup>147</sup> The fiscal guideline is expressed in policy documents, not in an Act or regulation.

is currently stipulated at 40 percent fixed income and 60 percent equities. The Ministry has presented plans to over time invest up to 5 per cent of the Fund in real estate (which will result in a reduced allocation to fixed income).

Although the state budget is cash based the estimated revenues from the Fund are presented both on accrual and cash basis<sup>148</sup>. Information on the management of the petroleum inflows and outflows in the fiscal budget and the Fund are included in the annual budget proposals and the National Budget, financial statements, annual White paper on the management of the Fund and the annual and quarterly reports from Norges Bank Investment Management.<sup>149</sup> A complete list of the Fund's investments at year end is published by Norges Bank each spring.

### Public availability of information

Estimates on *net petroleum wealth* and future net government revenues from petroleum activity are published in the National budget documents. The non-oil budget balance and the actual transfer from the Fund is presented in the budget documents, see section above. The annual budget documents also contain general information on the Fund including its size and historical and projected inflows and outflows. Since 2007 a separate White Paper has been issued on the management of the Fund with more detailed material on the investment strategy and performance.

*Risks* associated with resource revenue, e.g. oil price development, is in the Norwegian set up largely put into a medium-term and long-term perspective<sup>150</sup>. This must be seen in connection with the Norwegian fiscal framework in which seeks to largely shelter fiscal policy from short-term variations in e.g. oil prices. Long-term challenges for public finances are included in the budget documents. The National Budget regularly discloses calculations on long-term public finances, showing the impact of alternative assumptions regarding e.g. oil prices, productivity developments (private sector), employment rates and working hours<sup>151</sup>. The National budget also includes a chapter on structural policy. The chapter outlines the Governments overall efforts to pursue economic growth, efficient use of available resources and increased welfare.

The government *equity participation* and the activity of the resource companies are disclosed in various propositions to Stortinget (the Parliament). All revenues from the petroleum sector and expenditures (such as investment in petroleum activities) are included on a gross base in the fiscal budget. The revenues and expenditures are reported with a detailed economic classification. Petroleum revenues and expenditures are reported separately from the corresponding revenues and expenditures in the mainland economy. The transfers to and from the resource fund are also reported separately and on a gross basis.

The Ministry of Finance communicates and explains to *the public* the strategic asset allocation and closely follows up the operational management of the Fund. In addition to benchmarks set by the Ministry, the Ministry employs external consultants for independent management performance assessments. Reports from consultants are made public.

The budget of SDFI and Petoro are presented each year in the government budget proposition and in the annual revised budgets. The SDFI's accounts are presented in Petoro's quarterly and annual report, together with Petoro's results. The annual report from Petoro discloses all SDFI's holdings (in each field) of assets. The annual accounts are also presented in a booklet

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<sup>148</sup> The Fund uses accrual principles in their financial statement.

<sup>149</sup> There is also additional information on the websites of the Ministry of Finance and Norges Bank Investment Management.

<sup>150</sup> See Chapter 3.2.2. in National budget 2008

<sup>151</sup> Calculations presented in the National budget 2007, presented autumn 2006.

to the Office of the Auditor General in Norway. Furthermore the results are presented to Stortinget each year in a separate report together with the rest of the fiscal financial statements (St.meld. nr. 3).

Government total *receipts* from the companies are reported in the annual fiscal budget. Furthermore the Oil taxation Office publishes an annual report of company payments<sup>152</sup>. There are no payments from Petoro to the Central government. Income from the SDFI is a “cash-flow instrument” whose revenues are channeled directly to the fiscal budget. Information about the Norwegian Central government ownership stake and dividend payments from StatoilHydro is publicly available through both public records and information provided by the company<sup>153</sup>.

In the fall of 2007 the Norwegian Government publicly announced its decision to implement the Extractive Industries Transparency Initiative (EITI) criteria in Norway. The Ministry of Petroleum and Energy is given the responsibility of leading the work. Civil society is planned to be invited to participate in the set up of a working plan on how to implement EITI. StatoilHydro has also endorsed the EITI-initiative, and claim to disclose all its payments and revenues<sup>154</sup>.

Since all payments by the sector is publicly available and the central government’s revenues are subject to independent auditing by the Office of the Auditor General in Norway, the government’s view is that Norway materially fulfils the intentions behind the EITI Principles. However the government intends to cooperate with key stakeholders and civil society to look at the reporting system with the object of establishing a reporting and publication system more easily accessible to the public in line with the EITI Criteria.<sup>155</sup>

#### Assurances of integrity

Revenues from the petroleum sector are clearly identified in the budget. When the Stortinget (the Parliament) deals with the annual budget proposal, the most up to date information on the sector is reported. The Norwegian accounting and budgeting system is publicly known and explained in various official sources. The same internal control and audit procedures are used for handling resource revenue receipts in governmental organisation and the Fund as elsewhere in the public sector.

As described earlier the management of petroleum revenue in general and the Fund in particular includes a high degree of *transparency and disclosure* of information. The Ministry of Finance reports to Stortinget on all important matters relating to the Fund, such as the size of petroleum revenues and the Fund, the outlook for fiscal sustainability, changes in the investment strategy, the Fund’s performance, risks and costs. The Ministry also publishes advice and reports received from Norges Bank (the central bank), the Strategy Council and external consultants. Norges Bank publishes quarterly reports on the management of the Fund, as well as an annual report and an annual listing of all investments.

The petroleum companies are subject to the same taxpayer’s right and services as other corporate taxpayers. The Petroleum Tax Authorities cannot deviate from the tax legislation (little discretionary powers). *Tax* assessment of petroleum companies are performed by the Petroleum Assessment Board. Tax appeals shall be heard by the special Petroleum Appeal

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<sup>152</sup> See [Assessed taxes in the petroleum sector 2006](#)

<sup>153</sup> See StatoilHydro web pages: Top 20 shareholders, and The Norwegian State’s Ownership.

<sup>154</sup> For more information, please see StatoilHydro’s web page on [Praise for Greater Transparency](#) and the Government document [St.prp. nr. 1 \(2007-20008\) - MPE](#)

<sup>155</sup> EITI Criteria 5: “Civil society is actively engaged as a participant in design, monitoring and evaluation of this process and contributes towards public debate.”

Board. Cases to be resolved by the Boards shall be presented by the Oil Taxation Office. The Oil Taxation Office has the same rights and obligations as are attributed to the ordinary Tax Assessment Offices and the Municipal Tax Assessors in accordance with the general tax legislation. Decisions of the Petroleum Appeal Board are not subject to further administrative appeal. Legal action can only be brought against a decision in an appeal case.

The companies have a general duty to disclose all material documents and information which may be relevant for the tax assessment. Furthermore the Oil Taxation Office ensures a regular flow of relevant data and information from companies during the tax period.

StatoilHydro as a public and listed company complies with all applicable *accounting and auditing standards*<sup>156</sup>. Norwegian standards for auditing and accounting principles are materially in accordance with international standards. The office of the Auditor General of Norway reports each autumn on the SDFI together with their audit of the rest of the Norwegian Central government's activities<sup>157</sup>.

### Conclusion

The petroleum resource revenue system in Norway functions well and transparently and the management follows good international practices. There is clarity in roles and responsibilities between government and commercial activities, and legal and institutional framework governing fiscal administration. However, it should be noted that the discretionary licensing system is very dependent on well functioning government institutions with high integrity. Likewise, a complex petroleum tax system as the Norwegian is critically dependant upon a competent tax administration for correct tax assessment. These pre-conditions seem to be present in Norway.

The petroleum revenue inflow and the use of the revenues are fully integrated in the budget. There is a political and general acceptance of the fiscal framework, the management of the petroleum fund (the Government Pension Fund-Global) and the fiscal guideline for short term and medium term the use of petroleum revenues over the government budgets.

The budget process is transparent and budget information is available for policy analysis and presented to promote accountability. The legislature and the public are provided with a broad set of fiscal information. Fiscal policy objectives and fiscal risks are identified and addressed. Collecting revenue and monitoring approved expenditures are clearly defined and follows both general administrative procedures and additional monitoring arrangements. The Norwegian Government has recently endorsed the EITI-Initiative, and plans to invite civil society to participate in the set up of a working plan on how to implement the EITI-Principles.

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<sup>156</sup> For more details on results and publications, see StatoilHydro web page on Annual Reports.

<sup>157</sup> See section 3.6 and 3.7

## Annex 1. Performance indicators summary

Indicator	Score	Explanatory Details
<b>A. Credibility of the Budget</b>		
1. Aggregate expenditure out-turn compared to original approved budget	A	Deviations between actual and original budget primary expenditure were: 2004 = 0.4%; 2005 = -0.7%; 2006 = 0.2% The deviations were less than 5 percentage in all of the three years (Score= A)
2. Composition of expenditure out-turn compared to original approved budget	A	The average variance in excess of overall deviation was: 2004 = 3.2%; 2005 = 3.4%; 2006 = 2.4%  The variance were less than 5 percentage in all of the years (Score=A)
3. Aggregate revenue out-turn compared to original approved budget	A	Variations between original budget revenue and actual outturn were (exclusive net revenue from petroleum in parenthesis): 2004 = 13.2% (-1.7%); 2005 = 10.4% (1.2%); 2006 = 15.5% (5.6%)  Actual domestic revenue collection was not below 97% of budgeted domestic revenue estimates in none of the last three years (Score= A)
4. Stock and monitoring of expenditure payment arrears	A	(i) The stock of arrears is insignificant (Score=A) (ii) Reliable and complete data on the stock of expenditure payment arrears is generated in each agency through routine procedures (Score=A)
<b>B. Comprehensiveness and Transparency</b>		
5. Classification of the budget	A	The current classification system is based on an administrative, economic and sub-functional classification. While the classification system in the budget is not a GFS standard, it is considered to be able to produce consistent documentation according to GFS/COFOG standards.
6. Comprehensiveness of information included in budget documentation	A	Documentation includes (i) macroeconomic assumptions, (ii) fiscal surplus, (iii) use of surplus, (iv) debt stock, (v) financial assets, (vi) prior year's budget outturn, (vii) current year's budget in same format (viii) summarised budget data for both revenue and expenditure including the current and previous year and (ix) budget implication of new policies.
7. Extent of unreported government operations	A	(i) The level of unreported extra-budgetary expenditure is assumed to be insignificant (Score=A) (ii) There are no donor-funded projects in Norway. Dimension (ii) is therefore not applicable to Norway.



Indicator	Score	Explanatory Details
8. Transparency of inter-governmental fiscal relations	B	<p>(i) More than 90 percent of the transfers to local government are determined by transparent and rules based systems. (Score=A)</p> <p>(ii) The final information to sub-national government is issued late December or at the start of the fiscal year. However the sub-national governments are provided reliable preliminary information on the allocations to be transferred ahead of completing their budget proposal. (Score= B)</p> <p>(iii) Reports of sub-national government revenue and expenditure according to sector categories based on accounting data, is collected and consolidated by Statistics Norway by June the following year. There is no collected and consolidated ex-ante (budget) fiscal information. (Score=C)</p> <p>(Aggregate score=B, scoring method M2)</p>
9. Oversight of aggregate fiscal risk from other public sector entities.	C+	<p>(i) Autonomous government agencies/public enterprises submit fiscal reports to their responsible line ministry at least annually, but a consolidated overview of total risk for central government is missing (Score=C)</p> <p>(ii) Local governments can not generate fiscal liabilities for central government. (Score = A)</p> <p>(Aggregate score= C+, scoring method M1)</p>
10. Public Access to key fiscal information	B	4 types of information (out of 6) are available to the public in a timely manner
<b>C(i) Policy-Based Budgeting</b>		
11. Orderliness and participation in the annual budget process	A	<p>(i) A clear annual budget calendar exists, is general adhered to and allows ministries enough time to prepare their detailed budget proposals. (Score = A)</p> <p>(ii) Cabinet approves ministry expenditure ceilings before the budget circular is issued. (Score = A)</p> <p>(iii) The legislature has, during the last three years, approved the budget before the start of the fiscal year. (Score = A)</p>
12. Multi-year perspective in fiscal planning, expenditure policy and budgeting	C+	<p>(i) Forecasts of fiscal aggregates are prepared for 3 years on a rolling annual basis. The forecasts include expenditures for each ministry with details of the main items, but are only on the basis of unchanged policy. The aggregates are not presented according to economic classification and there is not a clear link to annual budget sector ceilings. (Score = D)</p> <p>(ii) Analysis of the sustainability of fiscal deficits is undertaken each year. (Score = A)</p> <p>(iii) Sector goals and strategies with costing exist for some sectors, but are not consistent linked with aggregate fiscal forecasts. (Score=C)</p> <p>The majority of important investments are selected on the basis of sector strategies and include recurrent cost implications. (Score=B)</p> <p>(Aggregate score= C+, scoring method M2)</p>

Indicator	Score	Explanatory Details
<b>C (ii) Predictability and Control in Budget Execution</b>		
13. Transparency of taxpayer obligations and liabilities	A	<p>(i) The legislative basis for taxation is clear with strictly limited discretionary powers (score=A).</p> <p>(ii) Taxpayers have easy access to comprehensive, user-friendly and up-to-date information on tax liabilities and administrative procedures. The Tax Administration also conducts information campaigns (score=A).</p> <p>(iii) Comprehensive system with independent tax tribunals parallel to treatments within the ordinary court of law (score=A).</p>
14. Effectiveness of measures for taxpayer registration and tax assessment	A	<p>(i) Taxpayers are registered in a complete database system with comprehensive direct linkages to other relevant government registration systems and information from financial institutions (score=A).</p> <p>(ii) Penalties for non-compliance have been sufficiently high and are consistently administrated (score=A).</p> <p>(iii) Planning and monitoring of tax audit and fraud investigation in the Central Tax Administration are managed and reported according to comprehensive and documented audit plans, with clear risk assessments criteria for all major taxes that apply self-assessment. Monitoring efforts may differ between different local tax authorities, however this has not been examined as a part of the PEFA assessment (score=A).</p>
15. Effectiveness in collection of tax payments	A	<p>(i) Tax arrears are considered insignificant (score=A).</p> <p>(ii) Indirect taxes are paid directly to accounts controlled by the Treasury. Direct taxes are paid accounts controlled by local governments, every cash balance are transferred to accounts controlled by the Treasury daily (score=A).</p> <p>(iii) Complete reconciliation of tax assessments, collections arrears and transfers takes place monthly within 3 weeks after the end of month (score=A) (Aggregate score= A, scoring method M1)</p>
16. Predictability in the availability of funds for commitment of expenditures	A	<p>(i) Cash flow forecasting is made by the Central Bank and updated daily. (Score = A)</p> <p>(ii) Line ministries are authorised to spend their appropriation without limits on the timing of the payment. (Score = A)</p> <p>(iii) Adjustments to budgetary allocations are generally made through issuing of a revised budget twice per year and are done in a transparent and predictable way. (Score = A) (Aggregate score= A, scoring method M1)</p>

Indicator	Score	Explanatory Details
17. Recording and management of cash balances, debt and guarantees	A	<p>(i) Debt data records are complete, updated and reconciled on a monthly basis with data considered of high integrity. Comprehensive management and statistical reports are produced quarterly. (Score=A)</p> <p>(ii) All cash balances are calculated daily and consolidated. (Score=A)</p> <p>(iii) No guarantees of loans can be given without priori decision by the Parliament (as a part of the budget process). Overview of new guaranties and the detailed terms are reported in the budget documents. The limits for central governments borrowing are authorised by the Parliament. The contracting of loans is made against transparent criteria and fiscal targets and the management is centralized to the Ministry of Finance. (Score=A)</p> <p>(Aggregate score= A, scoring method M2)</p>
18. Effectiveness of payroll controls	A	<p>(i) Personnel database and payroll are directly linked to ensure data consistency and monthly reconciliation. (Score=A)</p> <p>(ii) Required changes are updated monthly, generally in time for the following month's payments. Retroactive adjustments are rare. (Score=A)</p> <p>(iii) Authority to change records and payroll is restricted and results in an audit trail (Score=A)</p> <p>(iv) A system of annual payroll audits exists to identify control weaknesses and/or ghost workers (Score=A)</p> <p>(Aggregate score= A, scoring method M1)</p>
19. Competition, value for money and controls in procurement	B	<p>(i) There is statistics of the number (not the value) of contracts awards above the value of NOK1.1 million (USD178 000), but the data does not make it possible to estimate the use of open competition for award of contracts compared with total contract awards (Score=D).</p> <p>(ii) Other less competitive methods when used are usually justified in accordance with clear requirements, however the Office of the Auditor General has several comments on shortcomings in routines and documentations in the governmental agencies (Score = B).</p> <p>(iii) An independent agency for complaints on public procurement is operative and detailed information on its decisions is easily available (Score = A).</p> <p>(Aggregate score= B, scoring method M2)</p>

Indicator	Score	Explanatory Details
20. Effectiveness of internal controls for non-salary expenditure	A	<p>(i) Comprehensive expenditure commitment controls are in place and effectively limit commitments to approved budget allocations (Score=A)</p> <p>(ii) Other internal control rules and procedures are relevant (based on a risk assessment), and incorporate a comprehensive and generally cost effective set of controls and are widely understood (Score=A)</p> <p>(iii) Compliance with rules is high and misuse of simplified and emergency procedure is insignificant (Score=A)</p> <p>(Aggregate score= A, scoring method M1)</p>
21. Effectiveness of internal audit	D	<p>(i) The ministries do not have internal audit units. Only the largest agencies have internal audit units or internal audit systems (score=D)</p> <p>(ii) The largest agencies report to their management in the agency, but do not submit internal audit reports to their line ministry, The Ministry of Finance or to the Office of the Auditor General (score=D)</p> <p>(iii) The extent of actions on internal audit findings is uncertain. Twelve agencies received repeated comments on same issues from the external audit in 2004 and 2005 (score=D)</p> <p>(Aggregate score= D, scoring method M1)</p>
<b>C (iii) Accounting, Recording and Reporting</b>		
22. Timeliness and regularity of accounts reconciliation	B+	<p>(i) Bank reconciliation for all central government bank accounts take place at least monthly, within 4 weeks of end of period. (Score=A)</p> <p>(ii) Reconciliation and clearance of suspense accounts and advances take place at least annually, within two months from end of period and with few balances brought forward (Score= B)</p> <p>(Aggregate score= B+, scoring method M2)</p>
23. Availability of information on resources received by service delivery units (focus on primary schools and primary health clinics)	D	<p>There is no central regulation to make sure that information on resources available to primary service units are publicized or available up on request.</p>
24. Quality and timeliness of in-year budget reports	C+	<p>(i) Classification of in-year budget execution reports at payment stage allows comparison to the budget. However the data usually don't include expenditure at commitment stage (Score = C)</p> <p>(ii) Reports are prepared on a monthly base, and are issued within 4 weeks of end of period. (Score=A)</p> <p>(iii) There are no material concerns regarding data accuracy (Score=A)</p> <p>(Aggregate score= C+, scoring method M1)</p>

Indicator	Score	Explanatory Details
25. Quality and timeliness of annual financial statements	A	<p>(i) Consolidated financial statement for central government are prepared and includes full information on revenue, expenditure and financial assets/liabilities (Score = A)</p> <p>(ii) The annual statements are submitted within four months of year-end (Score = A)</p> <p>(iii) All statements are presented in a consistent format according to detailed national accounting standards (Score = A)</p> <p>(Aggregate score= A, scoring method M1)</p>
<b>C (iv) External Scrutiny and Audit</b>		
26. Scope, nature and follow-up of external audit	B+	<p>(i) All entities of central government are audited annually by financial audit. Performance audits are also undertaken (Score = A).</p> <p>(ii) The audit report is prepared within 7 months after the release of the accounts (Score = B).</p> <p>(iii) The audit report includes a report of the ministries' follow-up of earlier audits. Twelve agencies received repeated comments on same issues from the external audit in 2005 and 2004 (Score = B).</p> <p>(Aggregate score= B+, scoring method M1)</p>
27. Legislative scrutiny of the annual budget law	B+	<p>(i) The legislature reviews detailed estimates of expenditure and revenue as well as the macroeconomic framework and outlook. Medium term priorities are not reviewed by Parliament as they are not presented by the government. (Score = B)</p> <p>(ii) Procedures for the budget review, including organisational arrangements, exist and are respected. (Score = A)</p> <p>(iii) The legislature has more than 2 months to review the budget. (Score = A)</p> <p>(iv) Clear rules exist for amending the budget and are respected. (Score = A)</p> <p>(Aggregate score= B+, scoring method M1)</p>
28. Legislative scrutiny of external audit reports	C+	<p>(i) Scrutiny of the audit reports generally takes 4-5 months (Score = B)</p> <p>(ii) In-depth hearings are generally not conducted, but three in-dept hearings were conducted by the Parliament in 2007. (Score =C)</p> <p>(iii) Recommendations of actions from the Parliament are generally not issued directly to the executive, but do occur. However, the Parliament usually takes note of the comments from the Office of Auditor General. The executive generally follow up on the findings of the Office of the Auditor General, with some exceptions of repeated comments. (Score = C)</p> <p>(Aggregate score= C+, scoring method M1)</p>

## Annex 2. Fiscal Budget 2005-2007

**Table 2.1 Fiscal Budget and the Government Pension Fund. Key figures 2005-2007.  
NOK billion**

	2005	2006	2007
<b>1. Fiscal Budget</b>	Accounts	Accounts	Estimate
Total revenues	860.8	994.9	979.3
Revenues from petroleum activities	297.0	376.6	322.7
Revenues excl. petroleum activities	563.8	618.3	656.6
Total expenditures	650.1	683.5	716.7
Expenditures on petroleum activities	21.4	21.2	21.3
Expenditures excl. petroleum activities	628.6	662.3	695.4
Surplus before transfers to the Pension Fund – Global	210.8	311.4	262.6
- Net revenues from petroleum activities	275.5	355.4	301.4
= Non-oil budget surplus	-64.8	-44.0	-38.8
+ Transfers from the Pension Fund - Global	70.6	57.4	38.8
= Fiscal Budget surplus	5.8	13.4	0.0
<b>2. The Government Pension Fund</b>			
Net revenues from petroleum activities	275.5	355.4	301.4
- Transfers to the Fiscal Budget	70.6	57.4	38.8
+ Dividends on the Pension Fund <sup>1</sup>	36.9	64.1	75.7
= Surplus in the Pension Fund <sup>1</sup>	241.8	362.1	338.3
<b>3. Fiscal Budget and the Government Pension Fund consolidated surplus <sup>1</sup></b>	<b>247.6</b>	<b>375.5</b>	<b>338.3</b>

1) Excluding the Government Pension Fund – Norway in 2005  
Source: St.meld. nr. 2 (2006-2007), Ministry of Finance

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