

CMI2004



ANNUAL REPORT

CMI CHR.
MICHELSEN
INSTITUTE



«Never forget to feature first and foremost, the feeling of unity, the solidarity, the freedom, both the political and the personal, that is the right to think and act freely in everything, as long as justified interests are not harmed. If this view of life is not triumphant, it would be to no purpose to seek to build a new time which one could hope would be better and brighter than the old.»

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DIRECTOR'S INTRODUCTION



2005 marks the 75 year anniversary for the Chr. Michelsen Institute. We

have an opportunity to take stock of what has been achieved over the years and to think ahead on new challenges.

It is an impressive range and amount of pioneering research that has been carried out by institute staff in areas like microwave technology, nuclear physics, petroleum and gas technology, and telecommunications.

Over the years, CMI has been at the forefront of important research and applications in many areas. In Bergen, several commercial enterprises have been founded on CMI research. Since 1992, much of this has been carried out by Christian Michelsen Research (CMR) which until 2004 was jointly owned by CMI and the University of Bergen. Since then CMI research activities have in its entirety been devoted to development and human rights issues and international conditions that affect such issues.

CMI spearheaded development studies in Norway. Internationally, development research emerged as a field of study during the 1950s and 1960s addressing a number of familiar problems – poverty, inequality and weak institutions – the core of why some countries prosper while others do not. Understanding these problems has called for a variety of skills derived from many different disciplines, and required insights into complex local, national, regional and international dynamics. Insights generated by such research, and practical experience, have contributed significantly to what we know about developing countries. Past investment in research have contributed to dramatic advances in areas such as agricultural production, health, education and life expectancy, and provided important inputs into national economic and social policy management.

Development Action and Research Programme (DERAP) was established at CMI in 1965. The programme started its existence with five experienced economists, and with Just Faaland as the founder. Under his leadership, the programme developed from a development economics department to a multidisciplinary endeavour with economics, social anthropology and political science. It was an integral part of the DERAP “profile” that research fellows were expected to spend a significant part of their time in developing countries, mostly as advisers.

CMI is a member of the family of Norwegian research institutes which receive their core grants through the Research Council of Norway which, in turn, supervises and evaluates our work. There are standards to which we must strive, including the earmarking of core grants to strategic research programmes, and increasing the number and enhancing the quality of international publications. At the same time, CMI remains an applied, policy-oriented institute. Our core grant comes from the budget of the

Ministry of Foreign Affairs, and we undertake assignments of various kinds to assist policy formulation, to improve the basis for decision-making and to promote public debate on international development issues. Increasingly, our clients are located in other countries.

CMI has changed a lot since the early days in 1930. It is difficult to judge whether or not the founder Chr. Michelsen would have been equally pleased with all the developments that have taken place. Yet, I do feel certain that he would have been comfortable with the directions we have taken towards non-European research and the increasing research co-operation with partners in developing countries. This activity is in line with the so-called “fourth task” which Chr. Michelsen, increasingly saw as a central task for the Institute: to promote tolerance “between races, in religious, social, economic and political life”. He would perhaps have been less enthusiastic about the applied and policy-

...to promote tolerance

«between races, in religious, social,
economic and political life»

oriented character of much of the research, and would have seen it as an infringement on the intellectual freedom that he wanted CMI to uphold and pursue. Over the years, however, a number of initiatives have been taken that were not commissioned by external parties, but rather started because it was felt by the management, staff and the Board that they would be worthwhile and important to pursue. CMI established a Human Rights Programme in 1983 and pioneered human rights development research in Norway. Today human rights is an ingrained part of much the CMI research. This year the Board will announce a new programme that we hope will bring new and important perspectives to CMI research and to development research. Chr. Michelsen who had a strong entrepreneurial bent to his character would certainly have endorsed ventures of this kind.

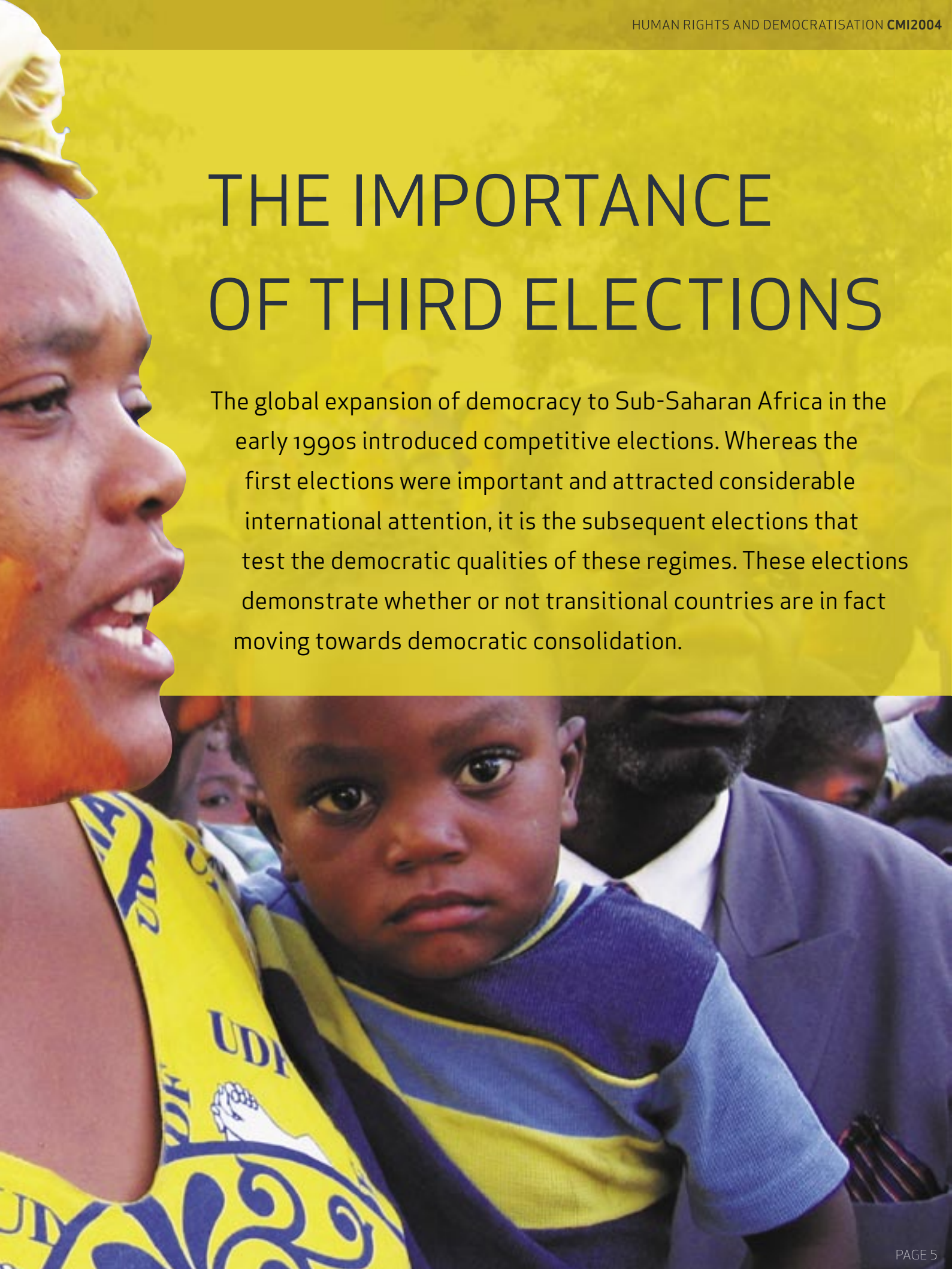
Like our founder, however, we strongly believe that research excellence must remain our foundation. Entering 2005, we continue to strive to improve academic excellence in everything we do: research, commissioned research and advisory tasks. While expressing my gratitude to CMI staff for the many activities related to research and policy impact that are described in this report, I will also urge them to remember that there is more challenging work ahead in the years to come.

Gunnar M. Sørbø
Director



THE IMPORTANCE OF THIRD ELECTIONS

The global expansion of democracy to Sub-Saharan Africa in the early 1990s introduced competitive elections. Whereas the first elections were important and attracted considerable international attention, it is the subsequent elections that test the democratic qualities of these regimes. These elections demonstrate whether or not transitional countries are in fact moving towards democratic consolidation.



The Malawian courts enjoy a high degree of integrity and played an im

Most of the 1990s' transitional constitutions in Sub-Saharan Africa included provisions limiting the president to two consecutive terms. In weak institutionalised democracies, incumbent presidents have great advantages, and tilt the outcome in their favour. When previous presidents are not allowed to run, third elections present other political actors with real electoral opportunities. However, incumbent presidents have in many instances sought to alter constitutions to allow themselves a third term in office. The third term debates have dominated the political discourse in countries like Zambia, Malawi and Kenya. While emerging as an important political norm on the African continent, the effects of the third term debates on the quality of the electoral processes and the party systems, have so far not been the focus of international research. In the period 2003-2005, the research programme on *Political Institutions in Africa* (POLINAF) (Lise Rakner) made the 2004 general elections in Malawi a focal point..

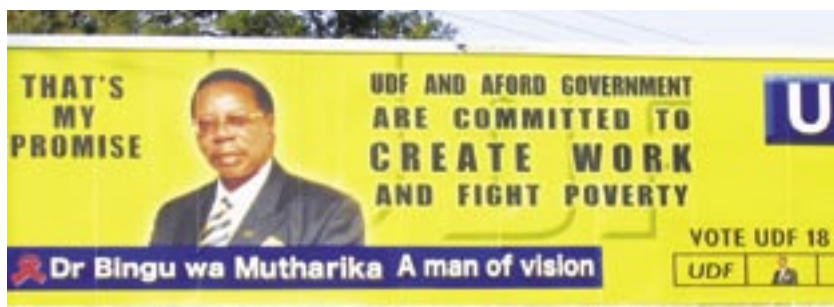
MALAWI'S FRAGILE DEMOCRACY

Faced with strong resistance within his own party, civil society, the judiciary and the donor community, Malawi's President Bakili Muluzi (2004), like Zambia's President Chiluba (2001) and Daniel Arap Moi in Kenya (2002), had to give up on his efforts to change the constitution to allow himself yet another term in office. In August 2003, President Muluzi announced Dr. Bingu wa Mutharika as his successor and the United Democratic Front's presidential candidate.

The Institutional Context of the 2004 General Elections in Malawi (Arne Tostensen) explores the role of parliament, courts, parties, electoral systems and electoral commissions in the period before, during and after the 20 May Presidential and Parliamentary elections in Malawi.

Our findings suggest that the decade-old democratic institutions of Malawi remain fragile. While the formal trappings of a new democratic regime are in place, the practice of actual politics often violates the rules. The administration of the 2004 elections was flawed and led to irregularities which put the outcome in question. In particular, the international community and local monitors criticized the registration procedures and the way in which the ruling party was able to dominate the television and radio waves completely in the run-up to the election.

The presidency in Malawi commands an unduly strong position with the Parliament playing a subservient role. The process of selecting a successor led to party fragmentation and formation of new parties before the elections. The first-past-the-post electoral system utilized for both parliamentary and presidential elections, facilitated party fragmentation as electoral victory required a simple plurality of the popular vote. Thus, Muluzi's handpicked



important role in safeguarding the formal rules of the political game.

successor Bingu wa Mutharika was able to win the presidency with support from only 35 % of the electorate. In order to secure the ruling party's position, a reverse process of party merger and coalitions of foes followed in the aftermath of the 2004 elections. The newly elected president's attempts to confront the country's increasing levels of corruption, have resulted in investigations and arrests of his party fellows, and a major political conflict has developed between the President and his former party.

The Malawian courts enjoy a high degree of integrity and played an important role in safeguarding the formal rules of the political game in the 2004 electoral process. The Malawian judiciary performed an accountability function, acted as a safety-valve, played the role of an internal arbiter for the political parties, and functioned as a source of political leverage.

A similar study of the *Zambian Elections* in 2001 (Lise Rakner) showed a country stuck in transition between actual democracy and authoritarian systems. The ongoing constitutional debate in Uganda shows that the upcoming elections will face similar challenges. Will President Museveni attempt to change the constitution to allow him a third term, will he attempt to impose a successor and risk the Malawi-Zambia backlash scenario, or will he allow a proper democratic process?

The project *The 2006 Presidential and Parliamentary Elections in Uganda: Institutional and Legal Context* (Lise Rakner) will analyse the extent to which 'accountability institutions' manage to stem executive dominance when put to the test of the parliamentary and presidential elections scheduled for March 2006.

WAITING FOR SECOND ELECTIONS IN ANGOLA

Presidential/ executive power is the major concern for democratisation in Angola. Angola has been governed by the MPLA party (Popular Movement for the Liberation of Angola) since independence in 1975 and through the entire civil war. The country has experienced a development of extreme social and economic inequalities. The party is dominated by President Eduardo dos Santos who has been in power since 1979. Peace holds in Angola after three decades of civil war. Angola's second democratic parliamentary and presidential elections are expected to take place within two years.

With an extremely weak Parliament and formal courts barely functioning outside the capital of Luanda, the prospects for successful elections seem rather bleak. The question is whether new electoral laws and constitutional reforms are sufficient to enable free and fair elections. Will the outcome be respected? This is explored in the project *Good Governance in Angola* (Inge Amundsen).

The CMI report *Angola 2003/2004, Waiting for Elections* (Armindo Miranda), is the fifth annual report on the social, economic and political development, commissioned by the Norwegian Embassy in Luanda. The current report analyses the political situation in Angola in the context of the upcoming parliamentary and presidential elections in 2006-2007, concluding that there is a need to improve the quality of the political processes, recommending Norwegian support to the establishment of independent media channels and to support research that improves the quality, transparency and accountability of governance in Angola. CMI also hosts a website on Angola.



COURTS IN NEW DEMOCRACIES

What roles do - and should - courts play in new and fragile democracies? Why do some judiciaries lamely condone foul play by those in power, while their colleagues in other countries fight to secure fair play according to democratic rules? Why do some courts become an arena where the poor and marginalized can fight for their rights, while other courts contribute to the dominant patterns of social exclusion?



COURTS AND POLITICS

Most new democracies have adopted judicial reforms to expand the formal authority of judges, and to increase judicial independence. The independence of the judiciary is usually guaranteed in the constitution and bolstered through judicial reforms, limiting the role of the executive in appointing and dismissing judges. Reforms improve judges' conditions of tenure and financial security. Why then, do some judiciaries remain executive minded or politically marginal, while others emerge as politically important accountability institutions?

These issues are explored in the project *The Accountability Function of Courts* (Siri Gløppen) which compares

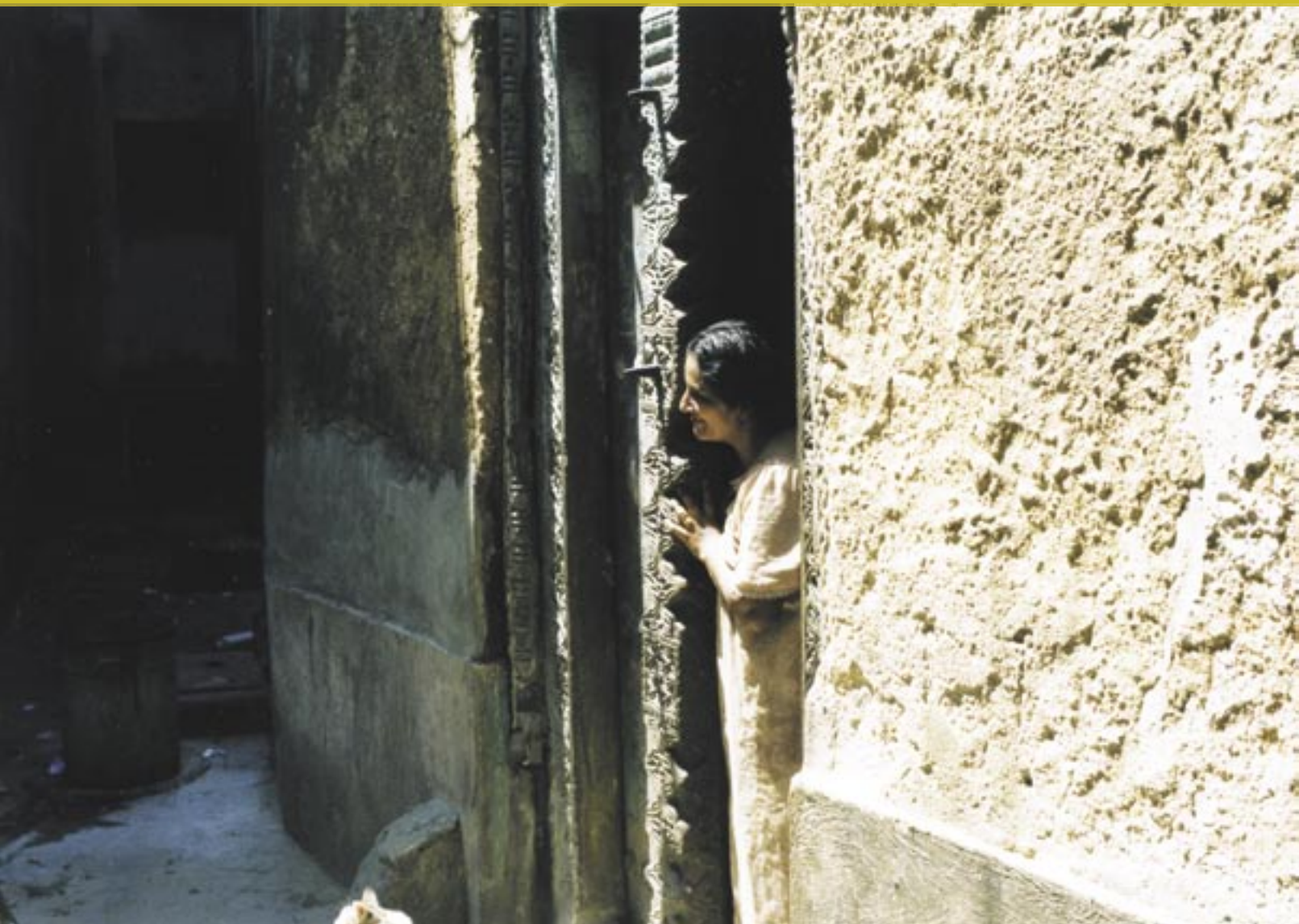
the performance of courts in a number of new and fragile democracies in Latin America, Africa and Eastern Europe.

Findings suggest that contrary to presumptions in much of the judicial reform literature, differences in institutional design cannot in itself explain the variations. The social and political context is also important: the balance of political forces, the courts' legitimacy in society, and the role of external agents, such as donors and international legal bodies. The personal characteristics of the judges also matter: their professional integrity, competence, ambition, and the way they perceive their own role.

JUSTICE FOR THE POOR?

The law is often characterized as "frozen power" and courts are seen to operate to the advantage of the privileged. However, in some cases poor and marginalized groups have - quite successfully - used the courts as an arena to fight for their rights. Examples are seen across continents and legal traditions in India, South Africa and Colombia. What explains this? What turns some courts under some circumstances into agents of social transformation?

These are central questions in the research project *The Poor and the Judiciary (Courts and the Poor)* (Roberto Gargarella) which looks at a range of cases (positive and negative) from various regions and legal traditions. What is it that motivates and enables poor and marginalized people to voice their concerns as legal claims? Both the resources that they have (knowledge, organizational



HUMAN RIGHTS

capacity, funding, legal assistance) and the barriers that they face (legal barriers, language, cultural distance, lack of trust in the legal system) are examined. Why are some courts more *responsive* to the claims of the poor – and more *capable* of giving them legal effect? Among other factors, judicial independence, the legal culture, and the background of judges are analysed as possible explanations. The project also focuses on the political and social effects of poor people's efforts to use the legal arena for their struggle.

The relationship between the poor and the courts is complex and requires an exploration of the whole of the judicial system. To meet these challenges a cross-disciplinary research team has been established, consisting of anthropologists, lawyers and political scientists – Norwegian as well as local scholars in the countries studied.

As the Human Rights Programme enters its third decade of existence, human rights continue to constitute a core component of many research projects at CMI. In the project *Accommodating Difference* (Tone Bringa), the tension between individual and group rights are explored in the context of the post-conflict environment in Bosnia. How are institutions equipped to offer human rights protection to different kinds of ethnic groups in a society that has been torn by violence and war? How may a focus on human rights contribute to the process of democratisation and stability? Can any measures be taken to avoid the recurrence of conflict?

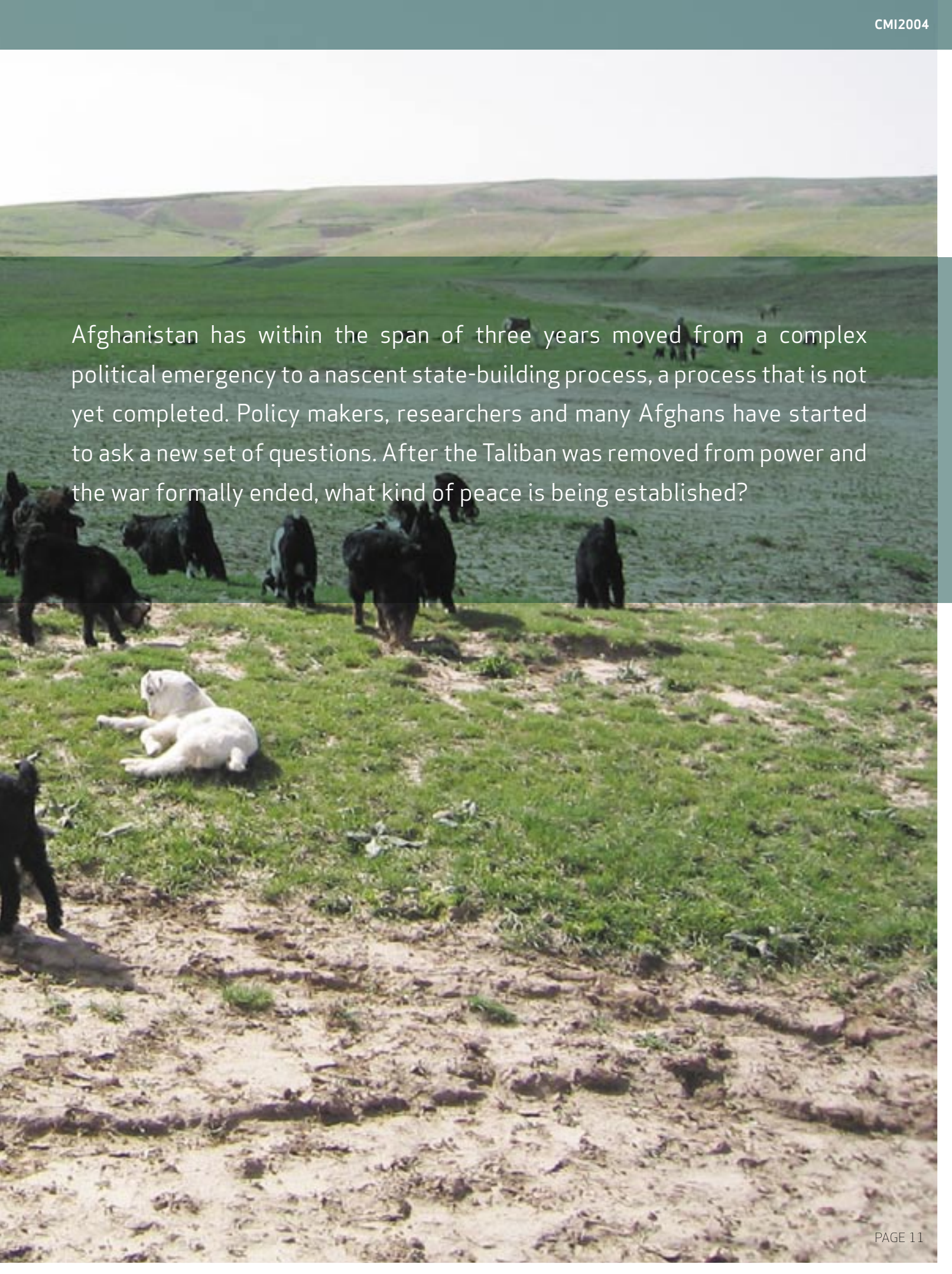
Securing well-functioning democratic institutions and political stability is particularly important after a long period of conflict. A major source of tension is often how to deal with wide-spread human rights violations. The edited volume *Roads to Reconciliation* (forthcoming 2005) (Elin Skaar) presents empirical data from countries across the

world showing how different countries have chosen a wide range of solutions (prosecution, truth commissions, local rituals) to deal with their legacies of human rights violations. Many institutional and cultural mechanisms may contribute to reconciliation.

To create respect for human rights and enable effective legal protection of political, economic, social and cultural rights, it is essential that countries strengthen their judiciaries. In recent years, a large number of donors – including Norway - have become increasingly engaged in assisting developing countries in reforming and strengthening their judiciaries. The project *Aid to Judicial Reform* (Elin Skaar) analyses the importance of a well-functioning judiciary and gives an account of Norwegian aid to judicial reform. The long-term aim of judicial reform is to strengthen human rights protection, and thereby create more viable democracies. To secure efficient judicial reform, the study shows that applying a holistic approach, establishing local ownership and ensuring effective donor coordination, are essential.

WHAT MAKES OR BREAKS A PEACE?



A photograph of a rural landscape in Afghanistan. In the foreground, a herd of black and white sheep is grazing on a patch of green grass and dry earth. One white sheep is lying down in the lower left. The middle ground shows more sheep scattered across a green field. In the background, rolling hills stretch towards a clear, light sky. The overall scene depicts a peaceful pastoral setting.

Afghanistan has within the span of three years moved from a complex political emergency to a nascent state-building process, a process that is not yet completed. Policy makers, researchers and many Afghans have started to ask a new set of questions. After the Taliban was removed from power and the war formally ended, what kind of peace is being established?

Since aid is more likely to make a modest contribution to growth, donors must consider other objectives than economic growth when allocating aid to countries emerging from violent conflict.

Formal steps towards democracy have been taken – notably direct election of a new President. Many refugees and displaced persons have returned, and development projects have started. But the security and human rights conditions have worsened in parts of the country. Opium production has rapidly increased and now accounts for half of the GNP. Still, many Afghans complain about slow progress in rehabilitation and development. There has been little capacity-building in the public sector. Much of the aid management is turned over to international consulting firms, while social services are contracted to non-governmental organisations and private firms on a competitive bidding basis. The result could well be growing inequality among provinces, with little development in the poorest and insecure areas.

The Afghanistan case can tell us something about how foreign aid and foreign NGOs best can assist a fledgling government in promoting peace and rebuilding the country. An evaluation of *Norad's Assistance to the NGO-sector in Afghanistan* (Arne

Knudsen) found that the Norwegian NGOs had made significant contributions to rural health care and primary education. The political situation in the country together with the funding regime had made the NGOs continue their broad-based development approach and delay programme specialisation.

Another study, *Mine Action for Peace* (Arne Strand) assessed the role of training of ex-combatants for community based demining projects and providing them with literacy and vocational training. The finding was that it was an effective way of contributing to a more lasting reintegration.

The project *What kind of Peace is Possible?* (Arne Strand) challenges the “northern-driven” research agendas in post-war situations. To this end, a southern-based network of research centres is focusing on how peace can be sustained in various post-war situations. Studying post-war demobilization in Afghanistan and Guatemala, CMI and The International Peace Research Institute (PRIO) explore alternatives to the conventional (top-down) strategies of demobilisation and reintegration of ex-combatants.



TOWARDS PEACE IN SUDAN

Regional conflict in the Horn of Africa has typically been the by-product of internal conflict. To sustain the framework for peace, regional states must be convinced that peace in Sudan is a collective good that can reduce cross-border problems, ranging from unwelcome ideologies and refugees to the export of violence and arms. To develop a supportive regional framework for peace, the Sudanese parties must themselves take appropriate stances towards neighbouring states.

CMI Director Gunnar M. Sørbo is a frequent contributor to the public policy debate on Sudan. In an analysis of the relevance of other comparable peacebuilding strategies to Sudan for the Ministry of Foreign Affairs, he stressed the importance of transforming the negotiated agreement into a pact that can be “owned” by all parties concerned. The choice of aid interventions must be informed by their likely impact on other conflicts in the country as well as on the North-South issues. Sustained and focused international attention is essential to maintain the momentum of the peace process.

SUSTAINING PEACE

CMI researchers are also participating in the efforts to systematize factors that determine the transition from war to peace and those that subsequently sustain – or undermine – the peace process. A CMI-study (Astri Suhrke and Espen Villanger) challenged the methodology and findings of the controversial World Bank study of the causes of civil war (Paul Collier). It was found that the World Bank study overemphasized the growth-effect of aid in a post-war situation. Since aid is more likely to make a modest contribution to growth, donors must consider other objectives than economic growth when allocating aid to countries emerging from violent conflict.

A comparative analysis of factors that sustain peace agreements (Ingrid Samset) considers the importance of peacekeeping operations, natural resources (to finance war and peace) and amnesty in the transition from war to peace.

The relevance of standardized peace-

building strategies was questioned at the UNDP/CMI Bergen Seminar 2004, *Strengthening Democratic Governance in Post-Conflict Situations* (Alf Morten Jerve). The conference noted that there is great diversity with respect to the causes, evolution and the ending of conflicts, and that these factors as well as the legacy of state administration, political structures and economic development, must be taken into account.

Through the strategic institute programme *Peacebuilding* (Arne Strand), CMI seeks to develop policy-relevant knowledge with reference to specific countries emerging from conflict, as well as strengthening theory-based knowledge about the causes and consequences of peacebuilding strategies more generally. CMI and PRIO have concluded formal arrangements to collaborate in this area (Strategic Alliance on Peacebuilding), which draws on the complementary activities of the two institutes.



HOLDING LOCAL GOVERNMENTS ACCOUNTABLE



Citizens' access and right to information on local government budgets and accounts are seen as a necessary condition for good governance.

Without basic information on public revenues and expenditures, people cannot hold their leaders and executive officers accountable. This is most acute when formal accountability institutions, such as audits and legislative reviews, are weak, as they are in most developing countries. How do local authorities disseminate information to citizens on revenues and expenditures? Does the information reach the general public?

These are among the questions addressed in an ongoing research programme on *Local Government Reform in Tanzania* (Odd-Helge Fjeldstad). Local authorities publish information on revenues collected and allocations of funds, but much of this information does not reach or is not understood by the general public. Public notices in newspapers or on notice boards at the council headquarters are often complicated, technical and hard to understand for ordinary citizens. Besides, the literacy level of many citizens is low.

Written and oral methods of dissemination must be combined.

The research shows that information must be made available in schools and dispensaries, and in village and ward offices. Experiences from some local authorities show that it may be effective to use local government staff to inform fellow citizens. Urban councils will require additional measures compared to rural councils because high mobility and turnover of residents make it more difficult to reach citizens with such information.

Improved information to the public on budgets and accounts may increase the opportunities for citizens to exercise their voice and demand accountability from local authorities. Encouraging citizens and civil society to engage in fiscal and financial monitoring at the local level, does not imply that such measures should replace formal auditing and accounting mechanisms. Nor does it imply that such measures will weaken the formal accountability mechanisms. On the contrary, it can strengthen the legitimacy and standing of local authorities in the communities.

TRUST IN PUBLIC INSTITUTIONS IN SOUTH AFRICA

A major financial problem in many municipalities in South Africa is the inadequate collection of service charges due to widespread non-payment.

The prevailing view is that non-compliance is caused by poverty and the existence of an 'entitlement culture'. However, huge variations in compliance exist both within poor communities and between communities with similar socio-economic characteristics. How can these differences be explained? What factors determine citizens' compliance?

Findings show that non-payment is not only related to an inability to pay and 'a culture of entitlement', but also to whether citizens perceive the local government to act in their interest. In particular, three dimensions of trust affect citizens' compliance: (1) trust in the local government to use revenues on expected services; (2) trust in the authorities to establish fair procedures for revenue collection and distribution of services; and (3) trust in other citizens to pay their share.

This project (Odd-Helge Fjeldstad) is part of a research programme with the School of Government, University of the Western Cape and the Department of Administration and Organization Theory, University of Bergen, that analyses the formation and functioning of public institutions historically and under the new democratic regime in South Africa. It examines how political authority, knowledge regimes and trust are related in five fields deemed essential for democratisation: education; health; agriculture/natural resources; local government/intergovernmental relations; and parliament/parliamentary committees. CMI has focused on local government finance.



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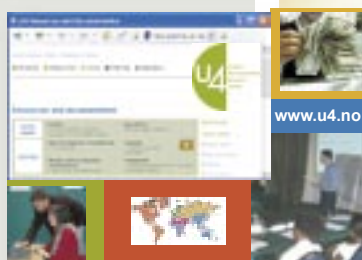
INCREASED ANTI-CORRUPTION SERVICES

Swedish Sida and Canadian CIDA joined the Utstein donor agencies (the United Kingdom, the Netherlands, Germany and Norway) in the co-operation on the *U4 Utstein Anti-Corruption Research Centre* (Inge Amundsen).

U4 provides rich online anti-corruption knowledge and resources through the U4 websites. The external evaluation in May 2004 was very positive, and CMI was awarded a new three-year contract, which implies considerable expansion. U4 is CMI's biggest project ever. In addition to the websites, U4 offers special services to staff in the six agencies.

Anti-corruption training

U4 has developed an online training facility provided for staff in donor organisations. A 'virtual classroom' draws together people from all corners of the world, guided by renowned expertise. In-country training has also been developed for donor staff. In 2004, CMI gave courses in Bangladesh, Vietnam, Albania and Malawi. Whereas the basic courses focus on how to analyse corruption, the elements of anti-corruption strategies and the donors' role, specialised sector-specific advanced courses are also in the pipeline. By the end of 2007, over 600 agency staff will have undergone Anti-Corruption training under the auspices of the U4 Resource Centre!



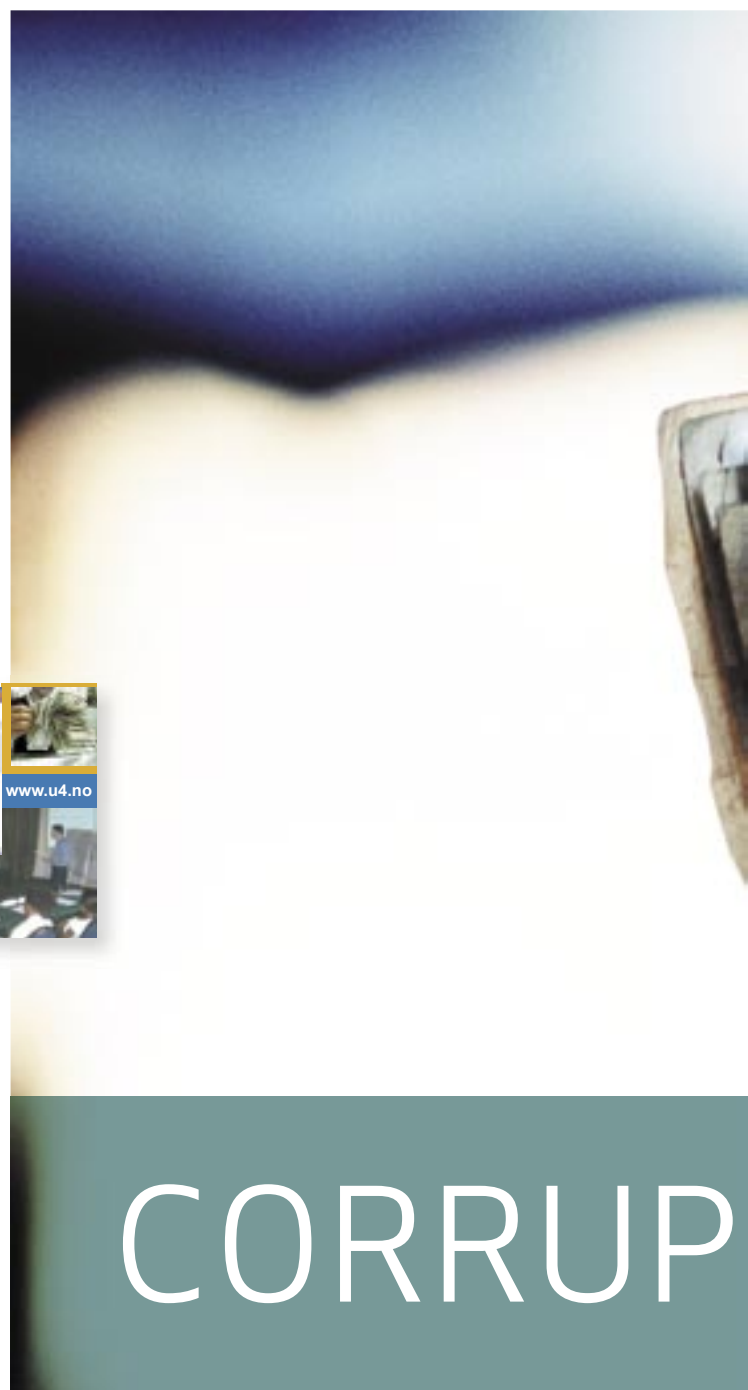
Helpdesk

The helpdesk promises expert answers to corruption queries within 10 working days and has been a remarkable success. The helpdesk has dealt with issues as varied as Direct Budget Support and corruption, national action plans to tackle corruption in Sub-Saharan Africa, donor support to civil society organisations as a means to reducing corruption, and a request for names for potential expert for a seminar in Nicaragua. The immediate success of the helpdesk lies in the provision of personal response and applicable input to the work challenges of anti-corruption practitioners. The helpdesk is run with invaluable assistance from the TI Secretariat in London.

Focus Areas – meeting new challenges

Theme pages have been dedicated to discuss the problem of corruption in the health and education sectors. Corruption cripples vital service delivery in many aid dependent countries. It is not uncommon that less than half the funds are spent on schools and hospitals, and that the other half ends up in the pockets of corrupt politicians and bureaucrats.

U4 addresses the most critical issues evolving in development aid. A thematic focus area on Public Financial Management draws on practitioners' experiences from many countries. A key question has proved to be how to tackle corruption under the aid modality of Direct Budget Support (DBS). Does DBS make it harder to control corruption? The U4 resource centre aims to be at the forefront of developing and disseminating answers to these challenges.



Corruption in international business transactions: The perspective of Norwegian firms (Tina Søreide) is a project that explores the role of firms, their challenges and their preferred strategies when entering markets in which corruption is a common problem.



TION CONDONED?

A study done in collaboration with The Confederation of Norwegian Business and Industry (NHO) conducted a survey of 82 top managers in Norwegian exporting firms and representatives of 24 Norwegian embassies outside the OECD-region.

The study showed that most firms, once they have decided to enter a specific market, prefer to adjust to the local business culture even if this means making use of unethical business practices. Few firms leave a country if contracts are lost because competitors offer bribes, even fewer speak out about the problem. The reluctance to speak out about corruption relates to a concern for future business co-operation.

More than two thirds of the responding firms believe or are convinced that they have lost business contracts because a competitor has paid a bribe. Tender rules are not considered an efficient obstacle to corruption. Direct negotiation is still a central

goal behind impediment bribery. One out of four responding firms finds it necessary to offer bribes or valuable gifts when operating in specific markets, and four out of ten make “irregular payments to get things done”.

The presence of corruption as a real-life phenomenon, is verified by a clear majority of the embassies. 18 of them say that a refusal to make irregular or informal payments might reduce the opportunities to do business. One third of them would actually recommend that Norwegian firms adjust to local business cultures, even if this would imply practices not accepted in Norway.

The study supports conventional wisdom that larger firms such as oil, gas, power transmission, construction and heavy industry are more exposed to corruption than smaller or medium-sized firms, and that the propensity to take part in such practices is greater in certain industries.

THE INTERNET AND THE ROLE OF INTERMEDIARIES

In tourism, intermediaries have traditionally played a significant role certifying and bundling goods. Tourists buy travels and accommodation from certified tourist bureaus and travel agents, and not directly from service providers. The Internet makes direct communication possible, making the intermediary redundant. Is this the case also in developing countries?

The revenue retention rate in tourism has traditionally been low, particularly for service providers in developing countries. The emergence of the Internet restructured supply chain management, allowing direct marketing (this intermediation), and providing a potential for increased revenue retention. The Internet is available all over the world, but Internet technology is not equally advanced and viable in all corners of the world.

The project *The Internet and the Role of Intermediaries in Development Countries*. (Arne Wiig) has analysed the conditions under which direct marketing over the Internet facilitates disintermediation in tourism.

Disintermediation and the profitability of using the Internet differ across markets according to available complementary factors such as human capital, technology and social capital. It is shown that direct marketing on the Internet and trust-enhancing institutions are complementary. These institutions do not exist in many developing countries, making disintermediation less likely. The intermediaries therefore prevail playing a certifying role in many developing countries.

The results are derived from an econometric analysis of the hotel industry in 120 countries, examining the relationship between direct marketing and risk. Direct marketing decreases with uncertainty, when controlling for third variables (such as income level, computers per capita and education).



BUSINESS ETHICS FOR MULTINATIONAL CORPORATIONS

Where should the line be drawn between corporate responsibility and the responsibility of other agents, such as the governments of developing countries or the international community? This is a particularly important question in countries where public institutions are unwilling to or incapable of fulfilling responsibilities normally attributed to them in affluent societies. Does failure of public institutions imply an added responsibility for corporations, and if so, what does this entail?

Corporations often base their corporate social responsibility policies on a simplistic view of what gains the firm: "Being responsible is good for business". In many cases being responsible will be costly for a firm. Nor is the position that the only responsibility of firms is to be profitable, morally defensible. To take business ethics seriously, corporations should instead use normative theory as the foundation for corporate policies. The project *Normative Foundations of Business Ethics* (Ivar Kolstad) analyses how implications for corporate action can be drawn from basic normative theories such as utilitarianism.



To what extent should multinational corporations doing business in developing countries contribute to improve social conditions?

Based on normative theories, the Norad funded project *Social Responsibility of Oil Companies in Angola* (Arne Wiig), argues that oil companies have a specific social responsibility. This is due to a lack of accountable public institutions in resource-rich countries like Angola, and the capacity of oil companies to improve the impacts of oil revenues on social conditions. However, preliminary findings show that in practice, the corporate social responsibility policies of oil companies are driven mainly by economic motives (good for business) – not by ethical considerations.

Ethics and Profits (Ivar Kolstad) will look more generally at the relationship between corporate ethics and profits. The project aims to map the kinds of social responsibility that have a positive, negative or no effect on profits, and under which conditions. This will provide ideas of the kinds of responsibility that corporations can be expected to honour voluntarily, and point to effective incentives to promote responsible behaviour.

These projects are part of a new research programme, *Business Ethics for Multinational Corporations* (Ivar Kolstad).



NEGOTIATING AUTONOMY

African women have a long history of political involvement. Yet, the fervour with which they participated in anti-colonial struggles and supported national liberation was not acknowledged after independence, leaving them to fight for representation and personal liberation on other fronts.

The book on *Women and Politics in Southern Africa* (Gisela Geisler) looks at women's struggles in Southern Africa where the last ten years have seen the most pervasive success stories on the African continent. Tracing the history of women's involvement in anti-colonial struggles and the fight against apartheid, the book analyses post-colonial outcomes and examines the strategies employed by women's movements to gain a foothold in politics.

In the book *Women and the remaking of politics in Southern Africa. Negotiating Autonomy, Incorporation and Representation* (Nordic Africa Institute 2004) Geisler presents in-depth analyses and women's narratives of their experiences in political parties, in the national machinery for the advancement of women, and in the autonomous women's movements.



CONDITIONALITY AND AID POLICY

The effectiveness of donor conditionality in fostering policy reforms in recipient countries has long been debated, and empirical research has shown that conditionality often does not work.

Recipient governments have a wide range of opportunities to undermine controversial reforms, and donors' commitment to enforcing sanctions is often weak. Recent research at CMI (Espen Villanger) contributes to this debate from a theoretical point of view.

A study, published in the *Southern Economic Journal*, presents a model that explains the fragility of conditionality as an instrument for making recipients implement controversial reforms. One possibility for the recipient country is to give contracts only to

companies from donor countries that are lax in demanding implementation of the reform. Thus, companies put a pressure on the donors that could cause conditionality to fail.

Another contribution within the same field, published in the CMI working paper series, presents a theoretical framework developed to understand how strategic donors may use the multilateral institutions to achieve their own foreign policy goals. This paper concludes that influencing international finance institutions, such as the World Bank and the International Monetary Fund (IMF), may give much more policy leverage than pursuing the same goals bilaterally with the same amount of aid.

The study also shows how such strategic behavior from a powerful bilateral donor can be damaging for the recipient in particular and for development in general. The recipient country becomes worse off since it is forced to comply with the foreign policies of the donor. The more foreign policies the recipient is forced to adhere to, the less economic reforms are possible to impose. Hence, if we believe that economic reforms will promote development, then such donor behavior is damaging.

COMMISSIONED RESEARCH AND CONSULTANCIES

There is an increased emphasis on knowledge based policy making, and a growing demand for research-based policy advice.

In 2004, CMI submitted more than 20 commissioned reports ranging from input to local government reform in Tanzania, budgetary processes and economic governance in Southern and Eastern Africa, rural taxation in Uganda, an evaluation of Sida's work related to sexual and

reproductive health and rights, a study of the impact of the work of Save the Children in Ethiopia, a study of how to mainstream mine action in development, primary education in Tanzania, elections in Sri Lanka, and poverty reduction strategy processes in Malawi and Zambia.

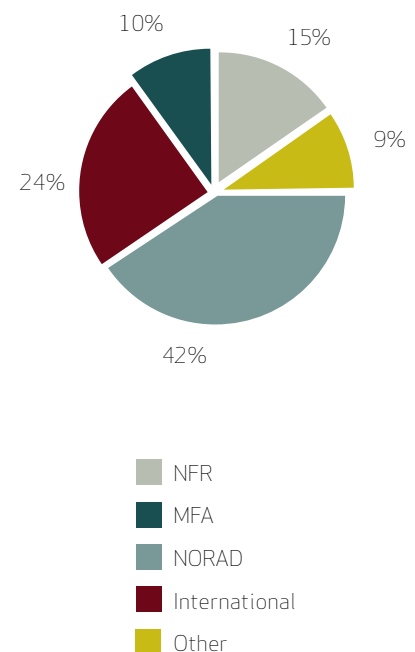


ACQUISITION

The resources spent on tenders and writing of proposals kept on growing at CMI in 2004. CMI is forced to be more strategic and selective about which tenders to go for, and invest even more efforts in the tenders chosen.

In 2004 CMI participated in bids for framework contracts with Norad in selected thematic areas, and signed agreements for good governance and social sectors (health). CMI also won a DKK 4.5 mill contract for a consortium of Ireland, Sweden, the Netherlands and Danida for *Evaluation of Humanitarian Reconstruction Assistance to Afghanistan*. Together with Oxford Policy Unit, CMI won a contract for a study of *Patterns of Accountability in Tanzania* for Dfid.

CLIENTS



CMI completed 148 research projects and commissioned work for external clients for a value of 34 million NOK in 2004. Norwegian agencies (the Foreign Ministry and Norad) remain the biggest clients. In 2004, contracts with Norad alone represented 38 % of the project revenues. CMI values the close relations with the Norwegian development agency because it affirms CMI expertise on the social, economic and political developments in development countries.

The project funding from the Research Council of Norway (NFR) remains at the same level as in 2004. NFR funding of projects has decreased with 10 % since 2001 (15 % in 2004).

The Institute's position in the international market remains strong. 24% of the project revenues came from non-Norwegian sources. CMI's main clients are Danida, Dfid and Sida, in addition to multilateral agencies like the World Bank and the UN.



BENEFIT STREAMS OF MINING IN TANZANIA

After 30 years with socialist policies, Tanzania opened up for privatisation and foreign investment in the mining sector in the late 1990s.

In the period 1998 to 2003, the value of mineral exports grew from US\$ 22 million to more than US\$ 550 millions. However, due to investment incentives which allow for generous tax exemptions, the total revenue to government was only US\$ 36.6 million in 2002 (13.4 percent of the total export). The low level of revenue and a number of serious conflicts between small scale “artisanal” miners and foreign owned companies have made mining one of the most controversial sectors in Tanzania.

Together with partners at ESRF, CMI (Siri Lange) conducted two case studies to explore the ways in which mining

companies organise benefit sharing at the local level. In Mererani, the mining company has targeted one ethnic group, the Maasai, for their development projects. This has entailed political separatism as well as increased antagonism between the Maasai and the multi-ethnic community of small scale miners. In Geita, on the other hand, the mining company gives their support to the local community through the District Council. The mine’s proximity to the District Headquarters, the level of corruption in local authorities, and the level of conflict with small scale miners, are decisive for how benefit sharing is organised.



SUPPORT TO THE CULTURAL SECTOR IN TANZANIA

The Norwegian Government sees development as realisation of rights that have been defined in international declarations and conventions. Here, cultural rights are mentioned in addition to political, social and economic rights.

In 2004, CMI (Siri Lange) was commissioned to assess two cultural projects in Tanzania that have received funding from Norad. Tanzania Culture Trust Fund (*Mfuko wa Utamaduni Tanzania*) aims to promote individual and organizational achievements in the cultural field. Due to limited government and private sector funding of culture and arts, the trust fund has played an important role for the cultural sector. A major challenge facing the fund is to strike a balance between the donors’ requirement that the fund should contribute to poverty reduction, at the same time as it has been meant to support exceptionally talented artists.

The Norad Programme in Arts and Cultural Education supports collaboration between Norwegian and African institutions. Projects that focus on formal qualifications and are part of larger, long term collaborations in politically stable countries were found to be the most successful.

CMI PROJECTS

HUMAN RIGHTS AND DEMOCRATISATION

- Courts and the Poor
- The 2006 Presidential and Parliamentary Elections in Uganda: Institutional and Legal Context
- Checking the State: the Role of Special Institutions of Restraint
- The Role of Supreme Audit Institutions in Malawi, Tanzania and Uganda
- The Human Rights Situation of the Adibasis of Bangladesh
- The Institutional Context of the 2004 General Elections in Malawi
- Courts in Transition
- Roads to Reconciliation
- Accommodating Difference: Human rights, Citizenship and Identity in Diverse Societies
- Good Governance in Angola: Parliamentary Accountability and Control
- Accountability Function of Courts
- Reconstituting Societies
- The Role of Courts in Bangladesh

PEACEBUILDING

- Multidonor Evaluation of Humanitarian Assistance to Afghanistan
- What Kind of Peace?
- From War-Termination to Sustainable Peacebuilding?
- Mine Action for Peace – Afghanistan
- Review of Afghan Development Strategy
- Alternatives to Forced Return (Roundtable conference on Afghanistan)
- Web Pages: Afghanistan - Peacebuilding in a Regional Perspective
- Peacebuilding and Post-War Aid: A Comparative Analysis
- Current Refugee Law and Issues
- The Effects of Post-War Aid
- Mainstreaming Mine Action
- Evaluation of the Life and Peace Institute in Somalia and DR Congo

GLOBAL ECONOMY AND DEVELOPMENT

- Social Responsibility of Oil Companies: Angola
- Social Development and Investment. The Cases of Botswana and Malaysia
- Social Development and Investment. The Case of Indonesia
- Business Ethics: Multinational Corporations
- The Role of Corruption in International Business Transactions
- Developing Countries and the Tourist Industry
- Social Development Indicators
- Market Access for Development Countries

PUBLIC SECTOR REFORM

- The Political Economy of the Budget in Malawi
- Corruption and Palestinian State-formation
- Research and Institutional Development Links between CMI and the Southern and Eastern Africa Policy Research Network (SEAPREN)
- Local Government Reform in Tanzania
- U4 - Utstein Anti-Corruption Resource Centre
- Inception Review of Scandinavian Support to the National Statistical Institute (INE) and Appraisal of a Five-Year Project for Continued Scandinavian Support
- The MUWATIN Agreement (phase III): State Building and Rent Seeking in Palestine
- Corruption in the Education Sector in Bangladesh

POVERTY AND SOCIAL TRANSFORMATION

- Bonded Labor in Nepal
- Changing Gender Relations in African Informal Economies
- Assessing the Impact of Transport and Energy Infrastructure on Poverty Reduction
- Joint Southern African-Norwegian Research Programme on the Southern African Development Community (SADC)
- "As Long as They Don't Bury Me Here". Social Relations of Poverty in a Southern African Shantytown
- Gender Mainstreaming

AID POLICY AND IMPACT

- Review of SADC and Recommendations for Future Norwegian Support
- Norwegian NGOs and Aid
- Assessment of Multilateral Organizations Performance
- Partnerships for Development
- Aid to the Judiciary
- Bridging Research and Policy
- External Support to Parliament
- A Comparison of Japanese and Norwegian Development Aid in South East Asia
- Civil Society in Nepal
- Evaluation of NPA Health Programme in Rwanda
- Evaluation of the Cabo Delgado Project

NATURAL RESOURCES

- Research Co-operation on Emerging Social Issues in Ethiopia
- Building Capacity in Governance and in Benefits Streams Management in African Countries: Case studies of Tsumeb and Selebi Phikwe Copper Nickel Mines
- KNOWFISH
- Evaluation of the Sofala Bank Fishery Project
- Evaluation of the FAO Seed Security Project

RESEARCH CO-OPERATION

CMI has played an active part in establishing institutions which actively engage in the development issues on an academically sound and practically relevant basis.

Institutional co-operation has given CMI staff opportunities to gain fresh insights and experiences from developing countries. Researchers from developing country institutions have been given greater access to international networks and a wider community of researchers. CMI has focused on research collaboration with research institutions in developing countries.

The academic and research sectors in many developing countries are weak and marginalised, their role is often restricted to teaching. Possibilities for innovative and exploratory work are increasingly restricted. Opportunities for critical debate and research particularly on issues that are perceived as politically sensitive are scarce. CMI has been able to offer sanctuary and opportunities to colleagues from developing countries and support them in their respective endeavours to make social science research relevant to the development challenges that they are facing.

This research co-operation has mainly been funded by Norad. Each co-operation project has been tailor made to the situation and needs of the institution in question. The specific thrust of the projects has varied but in general these projects have clustered around: Practical economic planning and policy analysis and academic research within a number of social science fields.

Ethiopia

One of CMI's most long-lasting partnerships has been with the University of Addis Ababa (AAU) (Johan Helland). This project developed from research on dry land development and human ecology in the African savannah belt, to a project to strengthen social anthropology as an academic discipline within AAU.

The results have been remarkable. In 12 years 150 students have completed their MA degrees, 6 have completed their Ph.D. The teaching department at AAU is now well staffed and capable of sustaining the academic activities of the department. Research co-operation between CMI and AAU now focus on research collaboration on emerging social issues providing research facilities to staff and research students.

Palestine

In 1995 the Palestinian Institute for the Study of Democracy (Muwatin) and CMI (Henrik Lunden) began a research co-operation funded by the Norwegian Ministry of Foreign Affairs (and Norad from 1999). This research co-operation has produced two books.

State Formation in Palestine: Viability and Governance During a Social Transformation (Routledge, 2004) challenges the widely prevalent view that the Palestinian Authority collapsed because of its internal governance failures, its lack of commitment to democracy and its failure to control corruption. The volume: *After Oslo: New Realities, Old Problems* (Pluto Press, 1995) was the first in-depth assessment of the Oslo process and its impact on Palestinian society. This volume demonstrated that the effect of the Oslo process, in terms of creating peace, has been meagre and argued that it could not lead to a lasting peace.



On 24-25 May 2004 there was a symposium (Are Knudsen) at CMI on internal and external challenges to state-formation in Palestine. Special emphasis was put on political and institutional developments within the Palestinian Authority and the strengthening of political Islam as a significant force in Palestinian society. The symposium also highlighted recent research findings and identified issues for future research co-operation between Muwatin and CMI.

Sub-Saharan Africa

In Polinaf institute programme takes a new look at the processes of democratisation in Africa, research co-operation is at the core. A research co-operation is established between CMI (Lise Rakner) and the Department of Comparative Politics, University of Bergen, and Chancellor College, University of Malawi, and Makerere University (Department of Political Science and Public Administration and Department of Public and Comparative Law). The co-operation includes research collaboration, training, workshops and conferences. The ambitious goal is to produce top notch international research on one hand, and local political scientists producing policy relevant input to their authorities. So far, the programme has produced one monograph, *Political and Economic Liberalisation in Zambia 1991-2001* (Nordic Africa Institute, 2003) and 5 articles in refereed international journals.

RESEARCH PARTNERS



SEAPReN

The Southern and Eastern Africa Policy Research Network (SEAPReN) was launched in February 2000 with the following members: Botswana Institute for Development Policy Analysis (BIDPA), Development Policy Research Unit (DPRU), University of Cape Town, South Africa, Economic Policy Research Centre (EPRC) in Uganda, Economic and Social Research Foundation (ESRF) in Tanzania, Institute of Economic and Social Research in Zambia, The Institute for Economic and Social Research (INESOR) in Zambia, and Namibian Economic Policy research Unit (NEPRU). The Institute of Policy Analysis and research (IPAR) in Kenya joined in 2004. The objectives of the network are collaborative research and institutional improvement.

The SEAPReN/CMI co-operation project (Jan Isaksen) started in 2003 with funding from Norad. The primary aim of the co-operation is to build a strong regional policy research network through institutional development and joint production of policy relevant studies. In 2003 comparative research on poverty policies and financial governance/budgetary systems covering the seven countries was started. In 2004 CMI staff visited all seven institutions and participated in a joint workshop in Cape Town focusing on the three areas of institutional improvement: institutional efficiency, promotion and network communication.

Angola

Instituto de Pesquisa Económica e Social (AIP)

Bangladesh

The Bangladesh Institute of Development Studies (BIDS)

Botswana

Botswana Institute for Development Policy Analysis (BIDPA)

Denmark

COWI
Copenhagen Development Consulting A/S

Ethiopia

Addis Ababa University (AAU)

India

International Centre for Peace Initiative (ICPI)

Kenya

The Institute of Policy Analysis and Research (IPAR)

Malaysia

Centre for Economic Development and Ethnic Relations (CEDER), University of Malaya

Mali

Centre National de Recherche Scientifique et Technologique (CNRST)

Malawi

University of Malawi, Chancellor College, Zomba

Namibia

Social Sciences Division, Multidisciplinary Research Centre, University of Namibia (SSD/UNAM)
Namibian Economic Policy Research Unit (NEPRU)

Norway

Norwegian Institute for Urban and Regional Research (NIBR)
Norwegian Consortium for Development and Environment (NODE)
Norwegian School of Economics and Business Administration

Noragric, the Centre for International Environment and Development Studies at the University of Life sciences
PRIO - International Peace Research Institute
The Norwegian Institute for Nature Research (NINA)
University of Bergen
University of Oslo, Department of media and Communication

Palestine

The Palestinian Institute for the Study of Democracy (MUWATIN)

South Africa

School of Government (SoG), University of the Western Cape

Development Policy Research Unit (DPRU), University of Cape Town

Centre for Applied Legal Studies (CALS), University of Witwatersrand

Centre for Policy Studies, Johannesburg

Institute for Global Dialogue, Johannesburg

Centre for the Study of Civil Society, University of Natal

Sweden

ORGUT

Tanzania

Research on Poverty Alleviation (REPOA)
Economic and Social Research Foundation (ESRF)

Uganda

Economic Policy Research Centre (EPRC)
Makerere University

Zambia

The Institute for Economic and Social Research (INESOR), University of Zambia

Zimbabwe

Centre for Applied Social Sciences (CASS)

REPORT OF THE BOARD OF DIRECTORS

Chr. Michelsen Institute (CMI) is a social science research institute with a focus on development studies and human rights in the South. CMI is one of the leading Nordic research institutes in applied development research, and advise executive development agencies on policy issues. The geographical focus is on Sub-Saharan Africa, South and South-East Asia, and the Middle East, with some activity also in the Balkans and South America.

CMI employs 40 social scientists, primarily anthropologists, economists and political scientists.

CMI's main research areas are:

- Human Rights and Democratisation
- Peacebuilding
- Global Economy and Development
- Public Sector Reform
- Aid Policy and Impact
- Poverty and Social Transformation
- Natural Resource Management

The Institute's main goal is to conduct high quality research and to contribute to political decision making and the public discourse on international development.

In 2004, the Institute maintained four strategic institute programmes (SIP) financed by the Research Council of Norway (NFR): Political Institutions in Africa, Courts in Transition, Peacebuilding, and Business Ethics for Multinational Corporations in Developing Countries. Additionally, CMI is running a Human Rights Programme with separate financing from the Ministry of Education and Research (UFD).

Main research activities in 2004

2004 was marked by moderate growth in terms of volume of projects and staff resources which both increased by approximately 5 %. The Board would like to highlight the following achievements in 2004:

The Utstein Anti-Corruption Resource Centre

In 1999, the development agencies in the UK, the Netherlands, Norway and Germany (the Utstein Group) established a common platform in the fight against corruption. In 2002, as a direct result of this collaboration, the group established a web-based resource centre at CMI dedicated to anti-corruption work. The resource centre is in its entirety created by CMI, and CMI is responsible for the daily running of the centre on behalf of the Utstein Group. The centre's main task consists of providing the partner agencies with research findings and guidance, as well as of supplying information on the Utstein Group's anti-corruption work. The resource centre has developed various online services such as a helpdesk where agency staff can submit questions to anti-corruption experts, and anti-corruption training courses.

The resource centre underwent an external evaluation in 2004. Based on the positive outcome, the donor group agreed to extend the project for another three years, from 2005 to 2007. The donor group itself will also expand in 2005, to include Canadian CIDA and Swedish Sida.

This project is the largest ever at CMI, with a total turnover for the 6-year period amounting to nearly 30 million NOK.

Courts in Transition

The strategic institute programme Courts in Transition was established in 2003, and is in the research front with its studies on the role of the judicial system in building new democracies.

The programme aims to investigate how courts influence the conditions for democracy and social transformation, especially in new and vulnerable democracies in the South; in Africa, Latin America, and Asia. Through comparative studies of the courts' role in different countries, the programme provides new knowledge on how courts in new democracies contribute to good governance, and on the requirements for the courts to assume accountability functions. One important issue is to establish conditions that determine whether courts contribute to reinforce existing social inequalities or become arenas where poor and marginalised groups can fight for their rights and improve their situation.

In addition to the core research team at CMI, researchers from the Department of Comparative Politics and the Faculty of Law at the University of Bergen, as well as from research institutions in Latin America, Asia and Southern Africa participate in the project. The Courts in Transition programme is an inter-disciplinary programme including social scientists, anthropologists and lawyers.

In 2004, the team published an anthology, *The Accountability Function of the Courts in Tanzania and Zambia* (London: Frank Cass, 2004), in addition to various articles in international journals.

Palestinian State Formation: Prospects and Challenges

Since 1996, CMI has had extensive research collaborations with the Palestinian research institute Muwatin (The Palestinian Institute for the Study of Democracy). This co-operation has been funded by Norad/the Norwegian Ministry of Foreign Affairs, and has consisted of two main components: research and institution building. There has been an exchange of both researchers and administrative personnel between CMI and Muwatin.

In 2004, CMI organised a symposium together with Muwatin on Palestinian State Formation: Prospects and Challenges (Bergen, 24-25 May). The symposium marked the completion of the current collaboration phase and the conclusion of several projects. The point of departure for the symposium was the anthology *State Formation in Palestine* (London: Routledge, 2004), which is the second in a line of extensive co-productions between Muwatin and CMI, with contributions from researchers from both institutions.

Publishing and capacity building

A determined effort towards international publishing has been part of CMI's strategy for the last few years. In the period 2002-2004, important achievements have been made in this respect. The statistics for 2004 show that in addition to 15 articles in international peer-reviewed journals, CMI researchers have published 14 chapters in books published by international publishers, as well as 8 books, out of which 6 are anthologies and 2 are monographs.

CMI submitted 30 Comissioned reports to external clients in 2004. It is important for CMI to keep a strong focus on publishing, and it represents a continuous challenge for an applied research institute operating in a tender based market. A large part of the international publications originate in basic research carried out at the Institute. A key challenge is to facilitate the production of

acclaimed international publications based on applied research.

It is with great pleasure that the Board can announce that 4 researchers at the Institute were evaluated by external commissions and promoted to Senior Researcher Fellows (Professor-level) during 2004.

Projects and clients

During 2004, the Institute carried out a total of 148 research projects and commissioned work for external clients to a value of 34 million NOK. Norwegian agencies (the Foreign Ministry and Norad) remain the biggest clients. In 2004, contracts with Norad alone, represented 38 % of project revenues. Projects which received support from the NFR constituted 15 % of the total project portfolio.

Project funding from NFR remains at the same level as in 2003. NFR funding totalled 5,1 million NOK in 2004, compared to 5,4 million NOK in 2003. It is positive that the Institute has managed to obtain new NFR projects to replace the completed NFR-projects. It is, however, worrying that the share of NFR funding is decreasing. In 2001, NFR funding constituted 25 % of the total project portfolio. The share decreased to just under 15 % in 2004.

The Institute's position in the international market remains strong despite a slight decline in 2004 compared to the previous years. In 2003, project funding from foreign and international organisations constituted a total of 32 % of the project revenues. In 2004, this portion fell to 24 %. This represents a reduction from 10,9 million NOK in 2003 to 8,2 million NOK in 2004.

The Board believes that there is a potential for growth in the international market, and that the Institute will work strategically to access these markets. The outlook for 2005 is promising in this respect. The most important international partners are DFID (UK), the Nordic aid Agencies (Sida in Sweden and Danida in Denmark), and the multilateral donor agencies (the World Bank and the UN).

The Institute receives core funding from NFR which in 2004 amounted to 10 million NOK. These funds finance CMI's strategic institute programmes and the library, as well as independent research initiated by Institute staff.

Finances

2004 saw a continuation of the financial developments from 2003, but with less growth in turnover and net result. The net project revenue increased with 5,5 % in relation to 2003, from 19,8 million NOK to 20,9 million NOK. The total turnover was 49,1 million NOK in 2004, compared to 49,5 million NOK in 2003. The operating result were - 426 201 NOK, compared to 1 584 704 NOK in 2003.

The yearly total is dominated by the effect of the sale of the Christian Michelsen Research (CMR) shares. CMI's shares were sold to the University of Bergen in 2004 for a total of 16 million NOK, with a 2 million NOK gain. CMI had also invested 17 407 821 NOK in a subordinated loan to CMR. This loan was written down by 10 407 821 in the 2003 accounts, and it was further reduced by 5 million NOK in 2004.

The flow of incoming orders was satisfactory throughout the

year. The Board expects a continuation of increase in the amount of commissioned work in 2005, and a financial result similar to previous years.

Collaboration with the University of Bergen and the Norwegian School of Economics and Business Administration

CMI enjoys close collaboration with the two central academic institutions in Bergen with joint research programmes, part-time posts, and with students and PhD candidates from the two institutions based at CMI.

In 2004, 11 students and 4 PhD candidates have been based at the Institute.

Working environment and staff

At the end of 2004 CMI counted 62 staff. 48 person-years were completed. Two new employees were engaged at the Institute during the course of the year, and 7 employees were on leave when the year ended.

Out of a total of 62 employees, 45 % are female and 55 % are male. The Board consists of three women and three men.

CMI offers a good working environment. There were no reported injuries or accidents in 2004. In 2004, absence due to illness represented 1,45 %. The equivalent figures for 2002 and 2003 were 5,47 and 3,46 % respectively.

Christian Michelsen Research A/S

Christian Michelsen Research A/S (CMR) was established in 1992. The company has continued the applied natural science and technology research previously conducted by CMI, but with an increased emphasis on the development of innovations and prototypes for the private sector.

In 2002, CMR conducted an internal evaluation of the collaboration with the University of Bergen. The evaluation report was completed in September 2002. Based on the findings outlined in the report, the CMR Board decided to seek a closer organisational affiliation with the University. The negotiations of the sale of CMI's shares in the company, were finalised in 2004 with an agreed total price of 16 million NOK.

CMI is thus no longer an owner, yet continues to be represented on the CMR Board with a board member.

The Foundation "Fondet til Nationalgaven til Chr. Michelsen"

On 7 June, two scholarships were awarded from the foundation "Fondet Nationalgaven til Chr. Michelsen" in the fields of social science and the humanities. 33 000 NOK were granted to PhD candidate Heidi Fjeld and her project "The Polyandrous House. Kinship, Marriage, Social Mobility in Rural Tibet". 28 000 NOK were granted to Espen Walderhaug and his project "Using neuropsychological testing to study the relationship between impulsivity and risk of HIV/AIDS infection in South Africa" (Bruk av nevropsykologisk testing til å studere relasjonen mellom impulsivitet og risiko for HIV/AIDS smitte i Sør-Afrika.)

CMI FINANCIAL STATEMENT 2004

(Extracts translated from the official Norwegian financial statement)

INCOME STATEMENT 2004

(in NOK 1000)

	Note	2004	2003
Operating income			
Project revenue	1	47 434	47 885
Other operating income		1 650	1 610
		<u>49 084</u>	<u>49 495</u>
Operating expenses			
Project costs		13 858	15 136
Payroll expenses	2,3	26 951	24 847
Depreciation	4	625	574
Other operating expenses		8 076	7 353
		<u>49 510</u>	<u>47 910</u>
Operating result		- 426	1 585
Financial income/expenses			
Financial income		788	1 206
Financial expenses		-729	-1 624
		<u>59</u>	<u>-418</u>
Ordinary result		633	1 167
Extraordinary expenses	5	0	-10 408
Net result for the year		-367	-9 241

BALANCE SHEET AS OF 31 DEC. 2004

(in NOK 1000)

ASSETS

	Note	2004	2003
Fixed assets			
Tangible fixed assets	4		
Buildings		21 660	21 914
Equipment		285	502
		<u>21 945</u>	<u>22 416</u>
Financial fixed assets	5		
Shares in associated companies			14 000
Loans in associated companies		2000	7 000
Long term receivables		545	587
		<u>2545</u>	<u>21 587</u>
Total fixed assets		<u>24 490</u>	<u>44 003</u>
Current assets			
Debtors			
Accounts receivable		5 056	2 708
Other debtors		964	359
		<u>6 020</u>	<u>3 067</u>
Investments	6		
Shares in other companies		125	325
Bonds		3 109	3 141
Unit trusts		5 325	4 982
		<u>8 559</u>	<u>8 448</u>
Cash and bank deposits		<u>25 284</u>	<u>8 286</u>
Total current assets		<u>39 863</u>	<u>19 801</u>
TOTAL ASSETS		<u>64 353</u>	<u>63 804</u>

EQUITY AND LIABILITIES

Equity**Paid-in capital**

Original fund	7	15 300	15 300
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Retained earnings

Other equity	7	-5 149	-4 781
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Total equity

		10 151	10 519
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Liabilities**Provisions**

Pension funds	3	5 886	6 524
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Long term liabilities

Long term loans	8	28 518	28 768
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Other long term liabilities	5	2 000	
		30 518	28 768

Current liabilities

Accounts payable		8 344	9 399
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Public duties payable		2 050	1 545
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Other shortterm liabilities		7 404	7 049
		17 798	17 993

Total liabilities

		54 202	53 285
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TOTAL EQUITY AND LIABILITIES

		64 353	63 804
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Bergen, 2 March 2005

Ingvild Gilhus
Chairman

Jan Isaksen
Board member

Stein Kuhnle
Board member

Arne Strand
Board member

Siri Pettersen Strandenes
Board member

Inger Johanne Sundby
Board member

Gunnar M. Sørbo
Director

NOTES TO THE ACCOUNTS AT 31 DECEMBER 2004

Accounting Principles

The annual accounts are produced in accordance with the Accounting Act and generally accepted accounting policies.

Project Revenues

Project revenues are accounted for according to progress and reflect earned income.

Balance Sheet Classifications

Current assets and short-term debt include items where payments are due within one year from the balance sheet date. Remaining balance sheet items are classified as fixed assets and long-term debt.

Receivables

Accounts receivable and other receivables are listed in the balance sheet at nominal value.

Currency

Funds held in foreign currency is equivalent to the exchange rate at the end of the year.

Short-term investments

Short-term investments (shares, unit trusts and bonds) are estimated at market value on the balance sheet date. Dividends are recorded as financial income.

Fixed Assets

Investments in fixed assets are recognised in the balance sheet and are depreciated during the asset's useful life when this exceeds 3 years.

NOTE 1 PROJECT REVENUES

	2004	2003
Project revenues	35 253 968	35 246 51
Grants	11 180 000	11 139 000
Chr. Michelsen Fund	1 000 000	1 500 000
	<u>47 433 968</u>	<u>47 885 512</u>
Geographic distribution		
Norway	39 268 062	36 928 355
Overseas	8 165 906	10 957 157
	<u>47 433 968</u>	<u>47 885 512</u>

NOTE 2 SALARIES AND SOCIAL COSTS

	2004	2003
Salaries	20 457 505	19 389 649
Social security taxes	3 350 159	3 001 074
Pension costs	1 423 865	1 169 886
Other benefits	1 460 878	1 024 275
	<u>26 692 407</u>	<u>24 584 884</u>
Other social costs	258 656	262 637
	<u>26 951 063</u>	<u>24 847 521</u>

	2004	2003
Leadership Remuneration etc.		
Director's salary	665 877	643 087
Pension costs	80 050	74 763
Other benefits	24 375	23 989
	<u>770 301</u>	<u>741 839</u>
Fees to council members	0	49 206
	<u>770 301</u>	<u>791 045</u>

Number of employees at 31 Dec. 62 59

Auditor's fees in 2004 include 247 440 NOK for auditing the accounts and 58 088 NOK for other audit related services.

Credits to employees amount to 545 579 NOK. The interest rate equals the standard rate offered in employment relationships.

NOTE 3 PROVISION FOR PENSION LIABILITIES, PENSION COSTS

The company has a group pension scheme for 50 regular employees. The scheme guarantees pre-set future benefits. These benefits are calculated according to years in service, salary at retirement, and the benefits from the national insurance scheme. The pension obligations are covered by insurance. The obligations also include provisions for a contractual early retirement scheme.

	2004	2003
Pension rights earned during the year	1 660 084	1 308 685
Interest expense on earned pension rights	1 276 243	1 074 710
Yield on pension funds	-1 177 196	-893 118
Administration cost	88 900	97 540
Contributions from employees	-365 003	-377 340
Social security taxes	-81 642	-32 720
Contractual early retirement pension costs	22 479	-7 871
Net pension costs	1 423 865	1 169 886
Earned pension obligations at 31 Dec.	17 829 230	15 179 648
Calculated effect on future salary regulations	5 848 779	5 143 583
Calculated pension obligations at 31 Dec.	23 678 009	20 323 231
Pension funds (at market value)	-17 805 164	-14 723 968
Estimation deviations not taken to income	-714 395	118 521
Social security taxes	727 341	806 207
Net pension obligations at 31 Dec.	5 885 791	6 523 991
Financial assumptions		
Discount rate	6,00 %	6,00 %
Assumed yield on funds	7,00 %	7,00 %
Assumed salary regulation	3,30 %	3,30 %
Assumed G regulation	2,50 %	2,50 %
Assumed pension increase	2,50 %	2,50 %
Voluntary resignation for employees under 40	29 %	2 %

NOTE 4 TANGIBLE FIXED ASSETS

	Land, buildings, other property	Machinery etc.	Total
Cost at 1 Jan.	25 494 175	2 299 423	27 793 598
Purchased assets		153 802	153 802
Cost at 31 Dec.	25 494 175	2 453 225	27 947 400
Accumulated depreciations at 31 Dec.	-3 834 502	-2 167 904	-6 002 406
Balance sheet value at 31 Dec.	21 659 673	285 321	21 944 994
Depreciations of the year	254 000	371 017	625 017

The annual depreciation of the value of the building at Fantoft is calculated in the linear method with 1 % per year based on the value at the time of dividing the property between CMI and CMR in 1992. Depreciation of machines and furniture is calculated using the linear method over 3 years.

NOTE 5 FINANCIAL FIXED ASSETS

Until 2004 CMI owned 50 % of the private limited company Christian Michelsen Research AS, Fantoft, Bergen. The company's share capital is 28 000 000 NOK. CMI's shares in the company were sold to the University of Bergen in 2004 for 16 000 000 NOK with a profit of 2 000 000 NOK. CMI had contributed with 17 407 821 NOK in subordinated loan capital to CMR. This loan was written down by 10 407 821 NOK in 2003 and by 5 000 000 NOK in 2004.

The University of Bergen has allocated 5 000 000 NOK for research collaboration with CMI. 3 000 000 NOK is recorded as income in 2004. The remaining 2 000 000 NOK are recorded as longterm liabilities in the balance sheet.

The net result in 2004 of the transactions connected to the sale of CMR is 0 NOK.

Other long-term receivables consist of credits to employees.

NOTE 6 CURRENT ASSETS

	Cost	Balance sheet value
Shares	552 282	124 592
Bonds	3 800 000	3 108 990
Unit trusts	4 690 000	5 324 685

NOTE 7 EQUITY

	Retained earnings	Paid-in capital	Total
Equity at 1 Jan.	-4 781 230	15 300 000	10 518 770
Net result for the year	-367 250		- 367 250
Equity at 31 Dec.	-5 148 480	15 300 000	10 151 520

NOTE 8 DEBT DUE LATER THAN 5 YEARS

	2004	2003
Chr. Michelsen Fund	28 012 711	28 012 711
DnB NOR Bank	505 000	755 000

Long-term debts to DnB NOR Bank is repaid over 10 years, the interest rate at 31 Dec. is 5,05 %. The loan is secured in the company's assets. The recorded value of pledged assets is 21 659 673 NOK.

CMI STAFF

(AS OF 31. 12. 04)

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Steinar Hegre (Head of Administration)

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