

# DENMARK

Development Assistance Committee (DAC)

PEER REVIEW



ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

## ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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### **Examen du CAD par les pairs Danemark**

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### The Peer Review Process

The DAC conducts periodic reviews of the individual development co-operation efforts of DAC members. The policies and programmes of each member are critically examined approximately once every four or five years. Five members are examined annually. The OECD's Development Co-operation Directorate provides analytical support and is responsible for developing and maintaining the conceptual framework within which the Peer Reviews are undertaken.

The Peer Review is prepared by a team, consisting of representatives of the Secretariat working with officials from two DAC members who are designated as "examiners". The country under review provides a memorandum setting out the main developments in its policies and programmes. Then the Secretariat and the examiners visit the capital to interview officials, parliamentarians, as well as civil society and NGO representatives of the donor country to obtain a first-hand insight into current issues surrounding the development co-operation efforts of the member concerned. Field visits assess how members are implementing the major DAC policies, principles and concerns, and review operations in recipient countries, particularly with regard to poverty reduction, sustainability, gender equality and other aspects of participatory development, and local aid co-ordination.

The Secretariat then prepares a draft report on the member's development co-operation which is the basis for the DAC review meeting at the OECD. At this meeting senior officials from the member under review respond to questions formulated by the Secretariat in association with the examiners.

This review contains the Main Findings and Recommendations of the Development Assistance Committee and the report of the Secretariat. It was prepared with examiners from Greece and the Netherlands for the Peer Review on 8 June 2007.

*In order to achieve its aims the OECD has set up a number of specialised committees. One of these is the **Development Assistance Committee**, whose members have agreed to secure an expansion of aggregate volume of resources made available to developing countries and to improve their effectiveness. To this end, members periodically review together both the amount and the nature of their contributions to aid programmes, bilateral and multilateral, and consult each other on all other relevant aspects of their development assistance policies.*

*The members of the Development Assistance Committee are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, the United States and the Commission of the European Communities.*

### Acronyms

AEPC	Alternative Energy Promotion Centre
B2B	Business to Business Programme
CSO	Civil Society Organisations
CSP	Country Strategy Paper
DAC	Development Assistance Committee
Danida	Danish International Development Assistance
DCCD	Danida's Centre for Competence Development
DEMA	Danish Emergency Management Agency
EC	European Community
ESAP	Energy Sector Assistance Programme
EU	European Union
GHD	Good Humanitarian Donorship
GNI	Gross National Income
GPRS	Growth and Poverty Reduction Strategy
HUGOU	Human Rights and Governance Programme
IFI	International Financial Institution
IFU	Industrialisation Fund for Developing Countries
JAS	Joint Assistance Strategies
LDCs	Least-Developed Countries
MCDA	Military and Civil Defence Asset
MDG	Millennium Development Goal
MFA	Ministry of Foreign Affairs
MOPAN	Multilateral Organisations Performance Assessment Network
MP	Member of Parliament
NAO	National Audit Office
NGO	Non-Governmental Organisation
OCHA	Office for the Co-ordination of Humanitarian Affairs
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development

PCS	Project Counselling Service
PPP	Public Private Partnership
PRSP	Poverty Reduction Strategy Paper
SPA	Seven Party Alliance
SPS	Sector Programme Support
TA	Technical Assistance
TNS	Training Needs Survey
UN	United Nations
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
UNHCR	United Nations High Commissioner for Refugees
WTO	World Trade Organization

**Signs used:**

DKK	Danish Krone
EUR	Euro
USD	United States dollars
()	Secretariat estimate in whole or part
-	(Nil)
0.0	Negligible
..	Not available
...	Not available separately but included in total
n.a.	Not applicable

Slight discrepancies in totals are due to rounding

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**Annual average exchange rate (DKK per USD)**

2001	2002	2003	2004	2005
8.3208	7.8843	6.5766	5.9876	5.9961

### Denmark's Aid at a glance

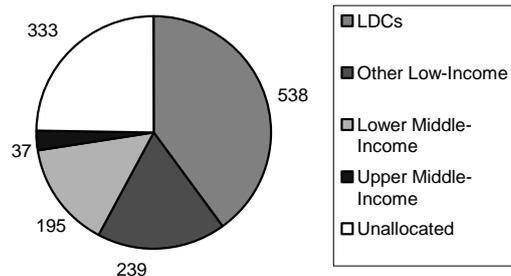
#### DENMARK

Net ODA	2004	2005	Change 2004/05
Current (USD m)	2 037	2 109	3.5%
Constant (2004 USD m)	2 037	2 076	1.9%
In Danish Kroner (million)	12 198	12 645	3.7%
ODA/GNI	0.85%	0.81%	
Bilateral share	59%	64%	

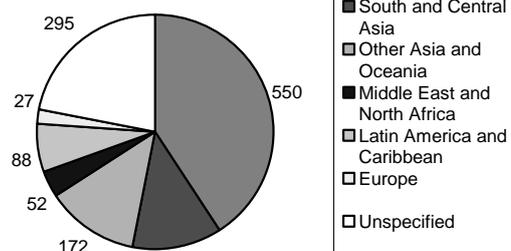
Top Ten Recipients of Gross ODA (USD million)	
1 Tanzania	90
2 Viet Nam	73
3 Mozambique	66
4 Uganda	64
5 Ghana	58
6 Bangladesh	49
7 Zambia	47
8 Burkina Faso	41
9 Nicaragua	37
10 Benin	34

Gross Bilateral ODA, 2004-05 average, unless otherwise shown

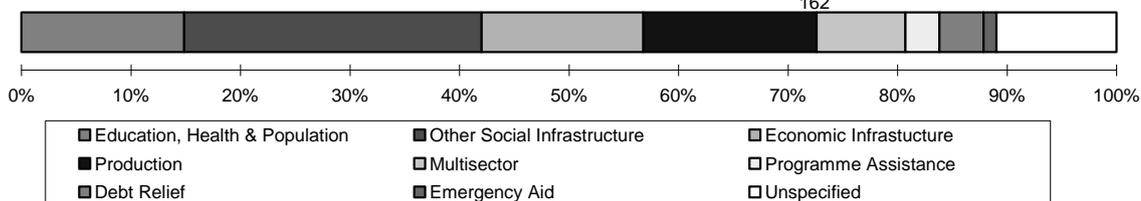
By Income Group (USD m)



By Region (USD m)



By Sector



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## THE DAC'S MAIN FINDINGS AND RECOMMENDATIONS

### Overall framework and new orientations

Denmark is one of the DAC members which has consistently exceeded the United Nations' (UN) target of 0.7% of gross national income (GNI) allocated to official development assistance (ODA). Since the last peer review, Denmark has secured political consensus for maintaining ODA at a minimum of 0.8% of GNI. The key strengths of Denmark's development co-operation system are its legal basis, strategic framework, institutional system and emphasis on quality assurance. These assets derive from the long-standing support for development assistance, reaffirmed in 2003 by the current government, and backed up by real improvements in the system. These strengths ensure Denmark is in a good position to address the challenges facing the donor community in pursuing the Millennium Development Goals (MDGs) and in implementing the aid effectiveness agenda.

### *Key assets*

Danish development co-operation benefits from a solid legal basis. The 1971 Act on International Development Co-operation is its political foundation and the Danish Parliament's statement, *Partnership 2000*, confirms poverty reduction as its overarching objective.

Since 2003, the government has increased the political priority of development policy, epitomised by the active engagement of the Prime Minister and the appointment of a Minister for Development Co-operation with responsibility for developing and implementing Denmark's development co-operation policy. A history of minority governments illustrates the consensual style that characterises the Danish political environment. This consensus-seeking approach contributes to the broad support for development co-operation. The Ministry of Foreign Affairs (MFA) maintains an open dialogue with various constituencies, which strengthens its support base. A stronger emphasis has been placed on the Minister's annual presentation to parliament of the government's priorities for Danish development assistance, which reinforces political ownership of the aid programme. Furthermore, the MFA facilitates visits by members of parliament to partner countries so they can better understand the need for aid and the realities of delivering it. This has helped secure the political consensus for ODA volume, and to ensure a widely- shared belief in the aid effectiveness agenda.

Denmark has a strong strategic framework for development co-operation, in which reducing poverty and achieving the MDGs are the overarching objectives. Over the last few years, the emphasis has been on the challenges and opportunities of globalisation and its impact on poverty reduction strategies. At the same time, development policy is increasingly seen as an integral part of Danish foreign policy. In particular, the potential role of development assistance in promoting global security and stability is highlighted in the 2006 statement on development co-operation, *Commitment to Development*. This outlines the strong Danish profile in reconstruction and conflict management, and puts special emphasis on the role of development to help resolve conflicts in Africa.

Since 2003, Denmark has also developed a strong policy framework based on seven priority themes and three cross-cutting issues (gender equality, environmental sustainability, and human rights, democracy and governance). Like other DAC members, Denmark struggles to mainstream these cross-

cutting issues, but is strengthening its approach in this regard. Denmark is also at the forefront of providing guidance for capacity development, considered to be a key element in its development assistance programme. Denmark is encouraged to continue to share the lessons learned in these areas with the donor community and to play an active role in the DAC debate on capacity development approaches.

The final key feature of Denmark's development co-operation is its integrated institutional system within the MFA at headquarters and in partner countries. Since 2003 this has been complemented by decentralising the bilateral aid programme from headquarters to 16 key partner countries (the "programme countries"), a key step in implementing the aid effectiveness agenda. In 2005, the Danish programme was also decentralised to four multilateral missions. This process has been accompanied by a strengthened approach to quality assurance, supported by a new results-based system and an emphasis on knowledge management.

### ***Challenges at the policy level***

The Minister's annual presentation of priorities to parliament tends to add a number of new initiatives to the programme, which may fall within Danish thematic priorities. This further complicates Danida's<sup>1</sup> policy framework and makes budgeting and programming a challenge. It also places an additional burden on embassies, which have limited ability to track impact. It is therefore important to ensure that the priorities presented annually reinforce Denmark's existing policy directions. This is the case in 2007, with good governance, women's rights and HIV/AIDS set as key priorities.

While Denmark's strong consensus-based culture brings a flexible, pragmatic approach, it may inhibit innovative thinking and risk-taking. Denmark tends to be cautious about taking risks, in particular regarding financial management issues. This may lead to insufficient scope for learning, experimentation and initiative, both for the recipient country and Danida, thereby weakening the ability to improve performance and implement the ownership and alignment principles. It may also lead to Denmark favouring relatively stable and well-performing countries over more risky environments, although, to its credit, Denmark did retain Nepal despite its shift from stability to conflict. Denmark should consider how it can balance the short-term need to demonstrate results *inter alia* to shore up public and political support with the need to take risks, engage in difficult environments and meet its commitments to aid effectiveness. As with other donors, Denmark should also endeavour to ensure that its accountability to parliament does not substitute for, but rather contributes to, strengthening domestic accountability in recipient countries.

Public information is a high priority for the MFA and the minister is actively involved. The most recent communication strategy (2003-2006) focused on the MDGs and has successfully increased public knowledge of, and interest in, development assistance. However, Danida will need to strengthen efforts to use innovative communication approaches to raise public awareness of complex development issues and of new ways of delivering aid. It should continue striving to increase openness in its dealing with the media. Public funding for development education through NGOs is decreasing and NGOs with whom the Ministry has a framework agreement are now required to co finance their activities. Against this background, the Ministry should maintain, through regular consultations, the close links it has established with NGOs.

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1. Danida is the brand name commonly used to refer to the development activities of the MFA.

### ***Recommendations***

- Denmark is invited to maintain the focus of its development strategy on a small number of themes and to reinforce its mechanisms in place for following-up on cross-cutting issues and priority themes. This should be done in light of the debate on the division of labour among donors.
- Denmark is encouraged to continue to share with other donors its experience in mainstreaming cross-cutting issues and its approach to capacity development, and to disseminate its good practices.
- Denmark should consider complementing the short-term need to achieve and demonstrate results in order to reinforce public and political support with the need to be innovative and in line with the aid effectiveness agenda, which requires a longer-term perspective. To this end, it should use its communication strategy actively.
- The MFA should continue its efforts to raise public understanding of, and support for, approaches to aid that are in line with the aid effectiveness agenda.

### **Promoting policy coherence for development**

Denmark is aware that globalisation reduces the traditional division between domestic and foreign policies, as highlighted by the MFA 2006 report, *Diplomacy in a boundless world*. From this perspective, development co-operation contributes, along with trade, investment, environment, security and good governance, to Denmark's foreign policy goals of ensuring a more peaceful and just world, with development and economic growth for all.

Trade, security and development are all within the MFA's remit. The ministry has made substantial achievements in promoting coherence between these areas, notably in pushing through EU sugar reforms and in peace-building initiatives. Mechanisms for promoting better policy coherence, especially in these areas, have evolved organically to deal with real concerns. At all levels (political, official, and public), the Danish approach to building support on specific issues has been inclusive and consensual.

Apart from the impressive institutional mechanisms in place to handle EU matters, this conducive environment has not been formally translated into a legal or institutional framework that would require different stakeholders to consider the broader development impacts of policy change. In particular, attention should be given to mechanisms that go beyond the foreign affairs remit. A strengthened analytical capacity will be crucial to allow the political debate to be well grounded and to enable Danida to inform the political agenda. To achieve this, the MFA could draw on a wide variety of sources, including information received from the embassies.

### ***Recommendations***

- Denmark is encouraged to build on its existing inter-governmental co-ordination committees to promote policy coherence in areas that go beyond the foreign affairs mandate. Denmark could make better use of the analytical capacity in its system, including the Danish Institute for International Studies, to inform high level discussions of development-related areas.
- Denmark could consider how to strengthen its collaboration with other member states in promoting policy coherence within the EU and the OECD. In addition, making better use of

its embassies in partner countries on these issues would also bring a field-based, recipient perspective on policy coherence issues into the Danish development policy debate.

### **Aid volume and distribution**

With aid volume steadily increasing in real terms since 2003 and an ODA/GNI ratio secured at 0.8%, Denmark is one of the most generous DAC donors. In 2005, Denmark's net ODA was USD 2.11 billion, representing 0.81% of its GNI. This ratio was the fifth highest in the DAC, and Denmark came 12<sup>th</sup> out of 22 DAC members for the volume of ODA granted. According to preliminary figures, Denmark will remain in the same position in 2006, with an ODA volume of USD 2.23 billion and an ODA/GNI ratio of 0.80%.

Denmark has recently shifted from a disbursement-based budget to a commitment-based budget. In order to reach the 0.8% target, Denmark will need to maintain flexibility within budget lines so that overall disbursement levels effectively match overall commitment levels. Assuming continued economic growth in Denmark, the country will also need to ensure that the additional resources are used effectively to fund new or extended development co-operation programmes.

Denmark's bilateral programme has accounted for approximately 65% of Danish ODA in recent years. It is strategically shaped around 16 "programme countries", each of which benefits from a long-term partnership. There is a strong focus on Africa and the least developed countries (LDCs). Denmark's flexibility and speedy response makes it well-suited to working in fragile states; it should consider further engagement with such countries, which are often less on track to meet the MDGs. To this end, Denmark should develop a strategic entry and exit approach, something of a challenge for all DAC countries. The criteria set by parliament for selecting "programme countries", which clearly favour stable and well-performing countries, could also be reconsidered.

Within each programme country long-term support is targeted to a small number of sectors, enabling Denmark to develop a real comparative advantage. Despite pressure to earmark funds for reasons of political visibility, it is commendable that Denmark has so far avoided setting input targets for its development programme. Denmark is encouraged to continue to be flexible in allowing each recipient country to identify the appropriate mix of sectors supported, taking into account national priorities and other donors' involvement.

Denmark is a key contributor to many UN agencies, and is also able to provide rapid and flexible support when needed. Denmark is actively promoting joint donor performance assessments of multilateral organisations and has already conducted innovative joint investigations in this area. Denmark has also been able to develop synergies between its bilateral aid programme and aid provided through multilateral organisations. It could build further on its decentralised system, set up in 2005, to reinforce its strategic approach to multilateral organisations; this could include reviewing whether it should engage with fewer organisations than the 38 international organisations it currently supports.

### ***Recommendations***

- The Development Assistance Committee commends Denmark's decision to maintain ODA at a minimum of 0.8% of GNI, and encourages it to continue this policy.
- Denmark is encouraged to develop a coherent strategic framework for engagement in fragile states.

## **Aid management and implementation**

### *An effective institutional system*

Combining a decentralised but highly integrated system within MFA headquarters and in the field has proved effective. The locus of leadership for all development policy and strategy, both bilateral and multilateral, lies within the MFA, where the Minister for Development Co-operation has final responsibility for all matters relating to Danish assistance within a framework approved by the Danish Parliament. At the same time, since 2003 broad responsibility for designing and delivering the aid programme has been devolved to Danish embassies in programme countries. In 2005, decentralisation was also extended to four Danish missions to multilateral organisations. Decentralisation has been a positive move for a number of reasons, including enabling i) a quicker response to development needs; ii) flexibility for aligning programmes with partner country priorities; and iii) harmonisation with other donors. The Danish institutional system also ensures coherence, facilitates communication and allows Denmark to develop efficient synergies between the bilateral and multilateral channels. While the decentralisation process has reached an appropriate balance between the respective responsibilities of Copenhagen and the embassies, the role of the Regional Departments at headquarters still needs to be clarified. Denmark is invited to evaluate the decentralisation exercise; such an evaluation would not only benefit DAC members engaged in a similar process, but also those considering decentralisation, including new donors.

The Board for International Development Co-operation (Danida Board) provides the minister with independent professional and technical advice on strategies, action plans and activities related to development co-operation. This set-up adds continuity and stability to Denmark's development policy; it results in strong involvement and deep knowledge on the part of the various stakeholders, and also heightens public trust in the process. It is important, however, to maintain clarity over the board's advisory role in order to prevent confusion over roles and lines of responsibilities.

### *Developing a quality assurance approach*

Decentralisation has been accompanied by a strengthened approach to quality assurance, marked by clear management guidelines and formats for programming and performance feedback. Denmark also makes good use of modern communication tools to maintain strong links within the system (videoconferencing) and to develop learning (innovative approach to e-learning).

Danida is shifting toward a results-based management system with a new results monitoring scheme introduced in 2003. This scheme does not aim to attribute overall improvements in a country to Danish inputs, but enables Denmark to track progress against stated objectives and expected results. However, Denmark could consider further rationalising this reporting system, as it involves many different tools and may be time consuming given embassies' staffing constraints. Danida should consider how it can effectively integrate this results-based system with its commitment-based budget, in order to closely link country-specific performance reviews to allocation of resources.

Danida has set up an efficient knowledge management system. It also benefits from an effective Evaluation Department whose role in developing evaluation methods is recognised within the wider donor community. Knowledge management and evaluation are both key assets for Danida. Denmark could make better use of these tools by being more systematic in the management of its various sources of information, and in giving the Evaluation Department more weight within the organisation.

### ***Implementing the aid effectiveness agenda***

Denmark is highly committed to the aid effectiveness agenda, which benefits from wide political support. In addition to the 2003 decentralisation process which aimed to create a supportive framework, Denmark has adopted a pragmatic and incremental approach to implementing the Paris Declaration commitments. Visible results include i) a significant reduction in the provision of technical assistance along with a renewed approach to capacity development; ii) a shift away from projects to long-term sector programmes (which accounted for 60% of Danish bilateral assistance to programme countries in 2005); iii) an avoidance of setting input targets; iv) active engagement in donor co-ordination and joint approaches; and v) considerable progress on aid untying. In 2006, a detailed review of harmonisation and alignment of Danish bilateral assistance to programme countries was completed by the National Audit Office, which gave further impetus to implementing the aid effectiveness agenda. Even though Denmark already actively promotes the implementation of the aid effectiveness agenda in partner countries, there is still scope for progress. This was also reflected in the 2006 Survey on Monitoring the Paris Declaration. One particular challenge will be to achieve progress on the target to reduce the number of Project Implementation Units (PIU).

Denmark should continue to improve its country strategy process to ensure there is enough flexibility to fully align the aid programme with partner countries' priorities. To this end, Denmark should also review experience with its new commitment-based budgeting, which aims to increase aid predictability, in order to ensure it remains flexible enough to reallocate funds when new priorities arise, and is consistent with the need to focus on results rather than inputs. Aid consultations should increasingly be conducted in the context of joint donor approaches. The bilateral consultations held every second year could focus on overall political, foreign policy relations, subject to recipient countries expressing a similar preference.

Denmark should review its ten criteria for General Budget Support (GBS) with reference to accountability relations, particularly in the light of the principle of mutual accountability. There may also be room to improve programme-based approaches; Denmark still retains a small number of free-standing bilateral projects in its sector approach. The use of country public financial management systems could also be improved; Denmark's strict application of financial management standards should translate into capacity building and should avoid setting up separate funding arrangements and parallel implementation structures. It is crucial to consolidate the emerging trend for Danish technical assistance to be aligned and harmonised with other donors and to build capacity. Too great a focus on financial control risks undermining ownership. Finally, Denmark is invited to implement its plan to look at aid effectiveness in performance reviews and evaluation; this would help systematise the aid effectiveness approach across embassies.

There has been substantial progress with aid untying since the last Peer Review. Denmark has untied all aid as of November 2006 with the exception of its Mixed Credit Programme. Food aid will be untied from 2008 onwards. This goes beyond the DAC Recommendation for aid untying. There have also been several positive changes to procurement policy in line with the Paris Declaration on aid effectiveness. However, Denmark's Mixed Credit Programme remains tied to companies registered in Denmark and this is not in accordance with the 2001 DAC Recommendation on untying ODA to the LDCs.<sup>2</sup> The programme has an annual budget of EUR 40 million (3% of the Danish aid programme) and operates in a number of LDCs with increasing commitments, accounting for 71% of the mixed credit scheme in 2006. Denmark is encouraged to undertake an analysis of whether the development

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2. Denmark's view is that this exception to the Recommendation is covered by the remarks made at the time of its adoption, which stated that Denmark's possible underperformance in applying the Recommendation is to be assessed against its overall performance on the effort sharing matrix.

results achieved by the use of the tied mixed credit scheme as well as the public support benefits could be achieved through the use of other instruments. This could allow Denmark to reconsider its exception in light of the Paris Declaration on aid effectiveness and in light of the improved overall performance of DAC Members in effort-sharing, as suggested by the 2007 OECD/DAC High Level Meeting.

### *Improving aid efficiency*

In the coming years, Danida will face a resource constraint: in common with other Danish public administrations, it reduced its administrative costs by 25% between 2001 and 2004. This decreasing trend in administrative resources raises the question of how far Danida can reduce its resources without negatively affecting quality and its ability to adapt to new aid modalities. Denmark has been able so far to maintain the quality of its programme despite reduced human resources, but it will need to maintain the right skills-mix and ensure it is well equipped to deliver the programme in line with the aid effectiveness principles. In this respect, Denmark should consider how to create incentives for aid effectiveness in terms of organisation, staff commitment and budget allocations.

Harmonisation and alignment are seen as ways to address the resource constraints, but embassies are not yet benefitting from reduced transaction costs. For example, whilst there are numerous joint programmes, Denmark only occasionally delegates programme management to another donor. The option of delegating part of the programme to external implementation units needs to be assessed against efficiency criteria, whilst increasing the Danish score on parallel PIUs. Finally, the decentralisation process means that Denmark is relying more on local staff for implementing the programme. In order to continue the move towards devolving higher responsibilities to local staff, it will need to consider how to offer them a better career structure.

### *Recommendations*

- Denmark is invited to evaluate the MFA decentralisation exercise. In addition to the direct benefit Denmark will draw from this, it will provide useful input to the DAC aid management experience and allow DAC members as well as new donors to improve on current practices.
- Denmark needs to consider how to maintain the right level of human resources with the right skills and gender balance. Given the increased role of locally-recruited staff in its decentralised programme, it should consider further career development for these employees.
- Denmark is encouraged to build on Danida's strong capacity in knowledge management and evaluation methodology to further develop and disseminate learning inside and outside the organisation for the benefit of other DAC members.
- In the light of the aid effectiveness agenda, Denmark is invited to pursue the trend towards a reinforced country strategy process that supports joint assistance strategies and that is conducive to mutual accountability. Denmark should consider how to create incentives for aid effectiveness in terms of organisation, staff commitment and budget allocations.
- Denmark is invited to consider other mechanisms or instruments for getting both development and public support benefits currently achieved through its tied Mixed Credits scheme. This would allow Denmark to reconsider its exception to aid untying in light of the Paris Declaration on aid effectiveness and the improved overall performance of DAC Members' with respect to effort sharing.

## **Humanitarian aid**

Denmark is regarded as an effective, lean humanitarian aid donor and has an established reputation for its work in both crisis response and policy engagement. Humanitarian assistance receives a high priority with the Danish ODA system, as seen in its policy framework and levels of funding. It is regarded as one of the leaders of the Good Humanitarian Donorship initiative (GHD) and plays an important part in international policy debates. However, Denmark needs to consider whether staffing of the humanitarian department is sufficient to engage consistently on policy issues.

Denmark's humanitarian aid is based on a clear strategic approach. It is strongly committed to GHD, including acting as current co-chair of the initiative, and places a particular focus on ways to make GHD operational at field level. The lessons from this effort should be shared with other donors.

Denmark has traditionally placed a significant emphasis on multilateral funding channels, making core contributions to humanitarian agencies and ensuring light levels of earmarking. In 2005, 55% of its humanitarian funding was un-earmarked contributions to the UN system, and its continued contributions to the UN's Central Emergency Response Fund demonstrate its commitment to GHD. Denmark is a leader in a number of funding and partnership approaches which are consistent with GHD and which should be shared with other DAC donors. These include for example the 25% of its humanitarian funding which is a multi-year commitment to framework agreements with major humanitarian agencies. The Humanitarian Department should learn from the development approaches to such frameworks to ensure that the new commitment-based budgeting arrangements do not undermine this approach.

Decentralisation has had an impact on the humanitarian programme in making co-ordination of multilateral activities more complex; roles and responsibilities between Copenhagen and multilateral posts need to be clarified in some cases. It would also be valuable for embassies in crisis-affected countries to have the capacity to play a greater role in monitoring and reporting on humanitarian issues and projects, through dedicated time for appropriately trained staff.

The Humanitarian Contact Group is an informal, technical group bringing together Danish NGOs and government officials. It is perceived to have influence within the Ministry of Foreign Affairs and is valuable to NGOs and officials from other ministries as a way of sharing information and analysis. It would be useful to publish terms of reference for the group and lessons learned from the way it functions.

## ***Recommendations***

- Building on its experience of working in fragile states and of linking relief to rehabilitation and development, Denmark should consider updating its 2002 humanitarian policy statement in light of progress with the GHD initiative. In doing so, it should continue to engage in a consultative discussion with key partners on future directions for the programme. This would allow it to build on its comparative advantage of flexibility in the way it delivers aid. This policy framework and the strategy for engagement in fragile states should be closely linked.
- Denmark, like other donors, needs to continue to remain vigilant about the co-option of humanitarian action to achieve political or military goals. MFA needs to retain its lead position on humanitarian assistance in order to ensure its neutrality and independence, particularly through ensuring practical adherence to the MCDA and Oslo guidelines.

## SECRETARIAT REPORT

### *Chapter 1*

#### Strategic Orientations

##### Strategic foundations of Danish development co-operation

Denmark has a long-standing tradition of development co-operation and has consistently allocated more than the United Nations (UN) target of 0.7% of Gross National Income (GNI) allocated to Official Development Assistance (ODA) since 1980. Its development co-operation approach benefits from a solid legal grounding, based on the *1971 Act on International Development Co-operation*, which has been amended several times, most recently in 2002 (MFA, 2002a). The political foundation for Denmark's development policy was reaffirmed in *Partnership 2000*, a major aid strategy statement adopted by parliament in 2000. This confirms poverty reduction to be the overarching objective of Danish development co-operation (MFA, 2000a). In recent years, with globalisation emerging as a key feature of international development, development policy is increasingly seen as an integral part of wider Danish foreign policy.

The consensual style that characterises the Danish political environment, associated with a long history of minority governments, results in broad support for development assistance. The Ministry of Foreign Affairs (MFA) maintains an open dialogue with various constituencies, including parliament and non-governmental organisations (NGOs), and this strengthens the MFA's support base. Since 2003, a stronger emphasis has been placed on the Minister's annual presentation to parliament of the government's priorities for Danish development assistance; this generates debate on development policy and reinforces political ownership of the aid programme. As a result, the government has now secured political agreement for maintaining ODA-volume at a level of at least 0.8% of GNI.<sup>3</sup> There is also a widely shared approach to the aid effectiveness agenda.

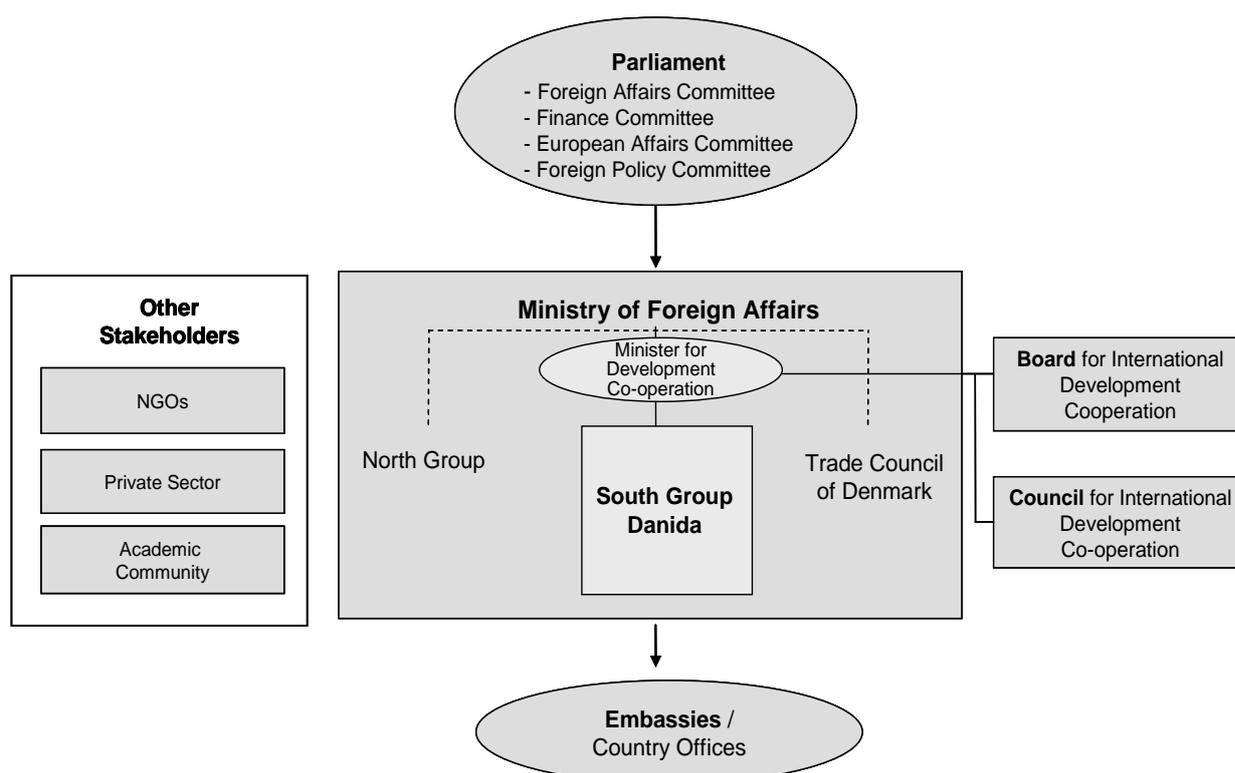
The broad organisational contours of Danish development co-operation are conceptually simple, with an integrated system within the MFA at headquarters and in partner countries. The locus of leadership for all development policy and strategy, both bilateral and multilateral, is the MFA, with the Minister for Development Co-operation having final responsibility on all matters relating to Danish assistance within the framework approved by the Danish Parliament. The MFA is in close contact with parliament, which approves budgetary allocations outlined in the annual priority plan presented by the Minister for development cooperation, as these are also reflected in the Finance Bill proposal. The

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3. Following a sharp decrease in aid volume in 2001 (see Figure 2), the previously high rate became an issue for political debate, with opposition parties such as the Danish Social Liberal Party and the Social Democrats wanting to raise it back to 1.0% and the Danish People's Party to decrease it to 0.7%.

MFA also has close relations with Danish embassies and representations to multilateral organisations, which have a wide responsibility for designing and delivering the aid programme, since bilateral co-operation was decentralised in 2003 and multilateral co-operation in 2005 (Figure 1). The Board for International Development Co-operation (Danida Board) provides the minister with independent professional and technical advice on strategies, action plans and activities related to development co-operation. The minister extensively relies on this board, which was established by the 1971 Act with an advisory mandate. This set-up gives stability to the system and results in strong involvement and deep knowledge on the part of the various stakeholders (Chapter 4).

**Figure 1. Denmark's development co-operation system**



## New orientations

### *A higher profile for development co-operation in the political agenda*

After an initial cut in aid, the government has given a higher priority to development assistance in the political agenda, with active engagement of the Prime Minister and broader debate in parliament on development policy. Since 2003, an annual priority plan for Danish development assistance, which includes the mandatory five-year budget plan, has been presented in connection with the publication of the government's Finance Bill. This initiative leads to a broad debate on development policy and strategy. The MFA also facilitates visits by members of parliament (MPs) to partner countries so they can also engage with the technical issues of aid delivery. Both the Foreign Affairs Committee and Finance Committee regularly visit the Danish programme countries as well as other countries and international organisations relevant for Danish development policy. This results in supportive committees which are knowledgeable about development issues, including policy coherence. Denmark's membership of the UN Security Council in 2005/06 also gave more prominence to the international agenda at the national level.

***Policy vision: the strategic framework***

The central goal of Danish development assistance is to support partner countries' efforts to reduce poverty. The Act on International Development Co-operation (MFA, 2002a) states that the objective of Denmark's ODA to developing countries is to promote economic growth and to contribute to social progress and political independence through co-operation with governments and public authorities in these countries, in accordance with the aims and principles of the United Nations Charter. Denmark also promotes mutual understanding and solidarity through cultural co-operation. According to *Partnership 2000*, poverty reduction through sustainable development is the central goal of the Danish aid programme and partnership is the basis for development co-operation. In recent years, a new emphasis has been placed on the Millennium Development Goals (MDGs) on the one hand, and on the challenges and opportunities of globalisation and how they may affect poverty reduction strategies on the other.

The Danish Globalisation Council's strategy, published in April 2006, identifies poverty as one of the key challenges of globalisation – and as a potential threat to global stability. The MFA developed the strategy further in a report which analyses how globalisation changes international relations (MFA, 2006a). This report sets out the implications for the MFA and stresses in particular that globalisation reduces the historical division between domestic and foreign policies. From this perspective, development co-operation conforms - along with trade, investment, environment, security and good governance - to the Danish strategy, which aims at ensuring a more peaceful and just world, with development and economic growth for all. Development assistance is becoming closely connected to trade and security policy efforts. For instance, the new 2005 Danish Africa policy aims to create better coherence between Denmark's support for peace and economic growth and development (MFA, 2005a). In other areas as well, inter-linkages are more clearly identified and followed up. The Regions-of-Origin initiative, launched in 2003 as a response to the refugee issue, was subsequently developed to include migration concerns.

The potential role of development assistance in promoting global security and stability is clear to the government. *Commitment to Development 2006* (MFA, 2006e) outlines the strong Danish profile in reconstruction and conflict management, and puts special emphasis on the role of development to help resolve conflicts in Africa. As for other donors, the rationale for development assistance rests on a convergence of development considerations with Denmark's long-term strategic interests. The same document outlines the government's increased efforts to promote dialogue with the countries of the Middle East to improve relations after the cartoon affair.<sup>4</sup> In this case, development policy (promoting human rights, gender equality, media and youth) helps to maintain a pro-active policy towards the Middle East.

Denmark has developed a strong policy framework of cross-cutting issues and priority themes. Gender equality, environmental sustainability, and human rights, democratisation and governance are cross-cutting issues<sup>5</sup> and each one is given a prominent emphasis in terms of policy. Similar to other members of the Development Assistance Committee (DAC), Denmark struggles to mainstream these cross-cutting issues, but has been innovative in this regard. According to the *Danida Performance Report 2005* (MFA, 2006b), achievements are mixed and include examples of good practice as well as areas where more could be done.

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4. Publication of caricatures of the Prophet Mohammed first appeared in Denmark's *Jyllands-Posten* newspaper in October 2005.
  5. Other priority themes are: HIV/AIDS, private sector promotion, children and youth, reproductive health, conflict prevention, trade and development, and indigenous people. A strategy for Denmark's support for the international fight against HIV/AIDS was developed in 2005.

Mainstreaming environmental concerns into Danish development assistance is one of the top priorities and several tools have been developed to achieve this (Box 1). There is also strong political and management support for gender with a strategy for gender equality developed in 2004 (MFA, 2004a). This guides implementation at country level, through international co-operation and within Danida, and highlights the need to strengthen the capacity of the MFA.<sup>6</sup> A renewed political focus was developed in 2006, with “gender equality and women’s rights” constituting one of the three main priorities of “*Commitment to Development – Priorities of the Danish Government for Danish Development Assistance 2007-11*” (MFA, 2006e). The minister actively supports this stronger focus on gender equality. At her meeting with the diplomatic corps in September 2006, she announced a strengthened effort to promote women’s rights and women’s role in generating economic growth. Gender equality analysis has become mandatory for new programmes and country strategies and a combination of mainstreaming and special interventions is required in bilateral programmes. Indicators for improving monitoring will be developed. A Gender Team was established in the MFA in November 2006 to support the further mainstreaming of gender equality in Danish development co-operation and policy, and to better link the gender issue with aid effectiveness. It consists of representatives (gender focal points) from all departments in the South Group (commonly known as Danida), all embassies and all multilateral representations.

#### **Box 1. Danish experience in mainstreaming environmental concerns**

Denmark’s aid programme has been actively dealing with environmental issues since the 1992 Rio Conference and the establishment of a Danida Environment Peace and Stability Facility as a separate funding mechanism (discontinued in 2002). In 2003, following an evaluation of its environmental assistance in South Asia under this mechanism (MFA, 2003a), a renewed emphasis was given to environmental concerns. The MFA prepared an environmental strategy covering 2004 to 2008 (MFA, 2004b), which built on findings of the evaluation and was subject to an extensive process of consultation, including inter-ministerial meetings, public hearings and parliamentary consultation. The strategy states that Denmark’s entire environmental assistance must contribute to realising the MDGs, by supporting the management of environmental challenges in developing countries and, ultimately, by enhancing their ability to bear the responsibility themselves. Environment is addressed as a cross-cutting issue within multilateral as well as bilateral co-operation. In particular, a climate change action programme (MFA, 2005b) was launched in 2005 to integrate the issue of climate change into the bilateral co-operation programme further. A study by the International Institute for Environment and Development on climate change and foreign policy was financed by Danida in 2006. This made recommendations in five areas: diplomacy, energy security and investment, trade and investment, development co operation, and peace and security (IISD, 2006). Equally, the 2004 revision of the strategy for trade and development offered an opportunity to include an environment dimension in the new strategy and ensure policy coherence between environment, trade and development.

In addition to providing training (including e-learning courses), a good practice paper on environmental sector programming was developed in 2006. The paper reflects new approaches to environmental assessment of sustainable development and takes account of the increased focus on alignment, harmonisation and new aid modalities (joint assistance strategies, basket funding, etc). It helps embassies to address environment as a sector approach (MFA, 2006d). As for the other mainstreamed sectors, a mandatory environmental screening is conducted at an early stage of the preparation of a programme. Each embassy’s concept note is screened by the Programme Committee before the support programme is prepared further. A specific screening tool has been designed for this, and to improve harmonisation, Denmark may think about developing a joint screening tool within Nordic+. In terms of funding, a special environmental assistance budget line was created to support bilateral initiatives, with DKK 480 million allocated per year. In addition, environment is covered as a sector in four partner countries, with activities concentrated in the urban and industrial environment; management of natural resources and sustainable energy, as was the case in Nepal (Annex E).

Finally, with respect to governance, Danida is at the forefront of the anti-corruption fight. Since 2004, the Danida Anti-Corruption Action Plan has taken a zero-tolerance stance against all forms of corruption. Mandatory e-learning has been provided to all staff and a corruption-hotline was launched

6. A strategy for promoting sexual and reproductive health and rights was developed in 2006 (MFA, 2006c).

in October 2005 to report incidents of corruption. Danida has also developed an innovative approach to capacity development (Chapter 6).

### *Sustained efforts toward effectiveness*

Denmark is strongly committed to implementing the Paris Declaration principles (OECD, 2005a), and has reshaped its development co-operation policies accordingly. Decentralisation of the aid programme has been a positive move in various respects, particularly in allowing a quicker response to development needs and providing increased flexibility for aligning its programme with partner country priorities and harmonising with other donors. Decentralisation has been accompanied by a strengthened approach to quality assurance and to results-based management (Chapters 4 and 5).

### **New challenges ahead**

Denmark has made substantial progress towards implementing certain recommendations in the last Peer Review (see Annex A for a summary), especially in maintaining the high profile of development co-operation on the political agenda, strengthening the country focus, further untying of ODA, and focusing more on results. Other recommendations could be implemented further, such as policy coherence, ensuring comprehensive learning from the decentralisation process, and fully complying with the DAC recommendation on untying

In the coming years, Danida may face a resource constraint. As with other entities in Danish public administration, it reduced its administrative costs by 25% between 2001 and 2004. Pursuing this trend will raise the question of how far Danida can go in reducing its aid management resources without negatively affecting quality and its ability to adapt to new aid modalities. Harmonisation and alignment are seen as ways to address this challenge, but embassies are still in a transition phase and are not yet benefiting from reduced transaction costs. The option of delegating part of the programme to external implementation units to reduce staff in embassies needs to be assessed against efficiency criteria. Finally, the increased reliance on local staff for implementing the programme will require Danida to consider how to further develop the career path for these employees (Chapters 4 and 5).

Translating an extensive policy framework of cross-cutting and thematic priorities into budgeting and programming is a challenge. All donors face the challenge of mainstreaming cross-cutting issues into the programme, but in Denmark, this is complicated by the number of priority themes to take into account. In addition, the government's annual presentation of development policy priorities for the subsequent five-year period may pressurise it to add new initiatives each year, ultimately overcomplicating its agenda and undermining attempts to focus on fewer themes and sectors. Denmark should make sure that its annual presentation system reinforces existing policy directions. This is the case in 2007, with priorities clearly a part of the core agenda of Denmark's development policy.

While Denmark's strongly consensus-based culture brings a flexible, pragmatic approach, it may inhibit innovative thinking and risk-taking. Denmark tends to be cautious about taking risks because it primarily wants to show results to its constituencies. This may lead to insufficient scope for learning, experimentation and initiative, which compromises the ability to improve performance and adapt to evolving situations. Risk avoidance is particularly apparent in financial management, as illustrated by Denmark's zero tolerance of corruption. This leads Denmark to set up specific arrangements which may hinder implementation of the ownership and alignment principles, as in Nepal (Annex E). More generally, the criteria set by parliament for selecting partner countries clearly favour stable and well-performing countries (Chapter 3). While Denmark's flexibility and speedy response make it well-placed to work in fragile states, political considerations may hamper the ability to define a coherent entry and exit strategy. This is a challenge for all DAC countries. Denmark should consider how it can

design strategies which make room for innovation, while considering the trade-off between the need to demonstrate results in order to reinforce public and political support and the need to be innovative and remain in line with its commitment to aid effectiveness in difficult environments. Finally, the exceptional involvement of MPs is an asset to ensure appropriate political support, but Denmark should take care to ensure that this accountability to national parliament does not replace, but rather contributes to, strengthening **domestic accountability** in recipient countries (Chapter 5).

## **Public awareness and support**

### *Current status of public support<sup>7</sup>*

Public support for development assistance in Denmark has been high for many decades. In 1975, more than 50% of Danes supported development aid, a percentage which has steadily increased since then: to 84% in 1998 and 93% in 2002. In 2004, according to the Eurobarometer survey, 97% of Danes believed it was very or fairly important to help people in poor countries, compared to an EU average level of 91%. The public remains widely supportive of development assistance. In 2001, before the current government cut ODA by about 10%, 18% of Danes found the level of ODA “a bit or far too high”. Following the cutback, this figure dropped to only 6% in 2004 and reached 9.5% in 2006. On the other hand, the percentage of Danes finding the ODA level too low went up from 29% in 2001 to 35% in 2006. At the same time, the percentage of people who thought the ODA level was about right fell from 49% to 42%.

The latest Danish survey conducted in November 2006 shows that most Danes (63%) relate development assistance to poverty reduction, which supports Denmark’s strong commitment to this issue (TNS, 2006). However, only 49% think that development assistance helps to a very high or high degree. This is a slight drop from November 2005 (52%), even though it is higher than the low point in February 2004 (41%).<sup>8</sup> The 2006 survey also shows that a large part of the population believes that the bulk of development assistance is spent on administration and does not benefit the poor (48%) or else disappears into the wrong pockets (44%). Even though these figures have fallen from 52% and 49%, they still indicate that many Danes have doubts about the efficiency of development assistance, and that there is a need for further information. This could stem from the fact that 40% disagree that media coverage of development issues is adequate and only 29% agree that it is adequate. Furthermore, 63% (72% in February 2004) find it difficult to get information from the media on how Danish development aid is spent.

### *Communicating and building public awareness*

The transition from project-based activities to sector programmes and budget support makes communicating the impact of Danish development aid more difficult, as the focus has shifted from the donor country to the recipient country. The figures above clearly illustrate the need to communicate achievements better.

In 2003, in order to improve communication and create a better understanding of development issues, Danida introduced a new communication strategy (2003-06). This strategy focused on openness and dialogue with the public and other partners such as NGOs and private enterprises. One of its purposes was to target the large “middle group” of the Danish population that was indifferent

7. Source: *Public Opinion and the Fight Against Poverty* (OECD/Development Centre, 2003); Eurobarometers 58.2 and 222 (EC, 2003 and 2005).

8. The 2004 Eurobarometer revealed greater support with 67% thinking that the government was helping poor people to develop (compared to an EU average of 62%).

about development co-operation. A broader communication strategy (2007-2009) for the MFA as a whole is currently being prepared. It will replace the development co-operation specific strategy so as to emphasise that development assistance is an integral part of Danish engagement abroad. The new strategy will recommend developing closer contact with the Danish and international media, improving the media skills of MFA staff (embassy staff in particular), and strengthening network relations.

Public information is a high priority for the current Minister for Development Co-operation and she is committed to promoting Danish development assistance to the public. As an example, in order to engage the Danish public more actively in a cost effective way in development policy and co-operation, the minister launched a web-based information initiative in December 2006 entitled “Engaging the Danes – Empowering the Poor”. This project has been criticised in Denmark because of its active use of “famous” people. It could also be criticised because of its focus on individual free-standing projects, therefore promoting rather old fashioned aid approaches. However, it was a success in terms of reaching the public and placing development co-operation higher up the public agenda. Danida is also raising awareness through a range of publications, newspaper features, TV programmes and DVDs, with a strong focus on the MDGs.

Whilst there has already been some success, there is scope for further efforts. A broad information campaign at the end of 2005 helped ensure knowledge of the MDG’s among 25% of the population, up from only 6% in December 2004. More broadly, interest in development assistance rose from 3.3 (on a scale of 1-5) in December 2004 to 3.6 in November 2006 (TNS, 2006). However, Danida will need to intensify efforts to combine innovative communication with bringing more complex development issues and new aid modalities, such as budget support, sector programmes and delegated co-operation to the public. In addition, it should continue to become more open towards the media. Even though there have been improvements, with the MFA being more forthcoming with the press, it is still seen as defensive towards the media and journalists have difficulty accessing information. Finally, Danida should be careful to more clearly differentiate between public information on its results (the Danida brand) and the broader field of development education, which will mean bringing independent voices to the debate.

NGOs also play an important role in public awareness. They are vibrant participants in the media, and many of them have a large number of members, which gives them very direct influence on public opinion. However, the budget for development education has been reduced by more than 40% since 2001, meaning that the larger NGOs now have to fund their development education activities from their regular budgets (Chapter 4). In general the current government’s development policy has sparked a lot of debate among the public,<sup>9</sup> helping to increase public awareness of development issues.

### Future considerations

- Denmark is invited to maintain the focus of its development strategy on a small number of themes and to reinforce its mechanisms to follow-up on cross-cutting issues and priority themes. It is encouraged to continue to share its approaches towards mainstreaming cross-cutting issues with other DAC members.
- Denmark should consider complementing the short-term need to achieve and demonstrate results in order to reinforce public and political support with the need to be innovative and in

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9. For example a survey financed by a number of Danish NGOs in February 2003 showed that 68% of Danes were opposed to further reductions in Danish development aid (Aalborg University and ACNielsen AIM).

line with the aid effectiveness agenda, which requires a longer-term perspective. To this end, it should use its communication strategy actively.

- The MFA should continue its efforts to raising public awareness, with a view to promoting the understanding of, and support for, aid modalities in line with the aid effectiveness agenda. It is encouraged to continue improving its communication with the media and other partners.

## *Chapter 2*

### **Policy Coherence**

#### **Progress since the 2003 Peer Review**

Denmark promotes policy coherence at international and national levels.<sup>10</sup> As was the case in 2003, the MFA still takes the lead in EU negotiations, and an elaborate arrangement for consultation on EU matters has been instituted. Since 2003, there have been several positive changes at the national level. There is an integrated Danish development policy that deals with five policy themes and there have been particular efforts to harmonise development policy with the challenge of creating a just, peaceful and stable world. The MFA has negotiated policy coherence for development on a case-by-case basis. However, there is no formal framework within which the MFA can take the lead in promoting policy coherence for development with other ministries. This remains as much a challenge as it was in 2003.

#### **Political awareness and leadership**

There is a broadly shared political understanding of the global context of Denmark's policies, including its development assistance policies. The Prime Minister established the widely representative Globalisation Council in 2005, and its report framed development policy within the broader policy context of ensuring global security, as discussed in Chapter 1. Accordingly there is close co-operation between different aspects of foreign policy – security, trade and aid. There is also a perceived link between security and migration, although this lies outside the strict remit of foreign affairs. The Foreign Affairs Committee in parliament shares this appreciation of the global context. The well-informed committee's discussions of policy issues have contributed to uniform positions across the minority government.

The MFA has a strong and recognised role in relation to trade and EC matters and takes a leading role in preparing coherent policies for trade as well as security. However, MFA's leadership role on development issues is constrained outside its foreign affairs remit. In the Globalisation Council discussions, MFA successfully argued that global poverty and the marginalisation of Africa were dangers for Denmark. The MFA also promotes development interests in negotiating policy areas with other ministries, but here it does not have a recognised leading role, making the promotion of policy coherence for development more challenging. The MFA could bring some pro-development points to the migration debate by putting to better use its analytical capacity.

#### **Legal framework**

Several documents outline Danish support for policy coherence for development, especially with regard to security and to Africa. *A World of Difference* (2003) and *Security, Growth – Development* (2004) set out an integrated development policy focusing on five thematic areas of (1) social and economic development; (2) human rights, democratisation and good governance; (3) stability, security

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10. The Commitment to Development Index 2006 ranked Denmark highly on policy coherence for development. CDI ranked Denmark second (out of 21 countries) and first for its performance on aid.

and the fight against terrorism; (4) refugees, emergency aid and regions of origin; and (5) the environment. *Trade, Growth – Development* (2005) sets out the government’s approach to promoting trade and private sector development, and emphasises the needs of the poorest countries in the world economy. In *Africa – Development and Security* the government sets out its priorities for Danish co-operation with Africa between 2005 and 2009, and states that "the government wishes Danish foreign, development, security and trade policy to interact and to be mutually reinforcing in order to promote the best development possible in Africa." (MFA, 2005a). In 2005, the Globalisation Council gave added impetus to policy coherence for development, through the prism of Denmark’s role in the world. *Globalisation – Progress through Partnership* (2005) translated this perspective into the government’s priorities for development assistance from 2006 to 2010, and deals with economic growth, security, the environment and climate change, human rights and democracy, and regions of origin (migration). *Commitment to Development* (MFA, 2006e) discusses the challenges of globalisation, and deals with market access, the Middle East, conflict management, humanitarian involvement, regions of origin, and the environment.

There is an organic evolution of policy coherence for development in preference to an overall formal framework that sets out coherence issues, roles and responsibilities. The government addresses specific issues as they arise, taking account of the political debate in Denmark. In this way, an integrated approach to security and development arose from dealing with the situations in Afghanistan and Iraq. The government relies more on the functioning of its organisational arrangements than on formal legal frameworks.

### **Organisational arrangements**

Building consensus is the primary institutional mechanism for achieving policy coherence, and this relies on specific political organisational arrangements. Denmark has a long experience of minority government which makes it crucial to build sufficient political support for different measures. The Danish Constitution states that the government has to consult with the relevant parliamentary committees, as shown in Chapter 1 (Figure 1). There are public and parliamentary debates, especially on trade and security, and parliamentary committees allow the different political parties, including the opposition parties, to address issues at an early stage. For example, the committees can ask to be briefed by the Ministers of Foreign Affairs or Trade. MPs try to co-ordinate between the parliamentary committees to increase synergy. In a context where “counting to 90”<sup>11</sup> is embedded in the psyche of all officials because minority government is the rule rather than the exception, committee discussions help to clarify the level of support.

The Prime Minister has set a clear strategic direction for security and development and there is a clear line of control and accountability for trade and development. These factors facilitate MFA’s leadership role on these issues in terms of policy coherence for development. For trade, international discussions via the EU and World Trade Organization (WTO) create the backdrop against which Denmark has to reach a position that takes account of both trade interests and development policies. Political influence is exercised by the Foreign Affairs Committee and the European Affairs Committee (Box 2). Trade issues fall under the administrative control of the MFA. Trade and development have been linked since 2002, when a group of people from different departments started working informally together. The MFA has a task force that brings together the South Group (development) and Trade Council of Denmark. It meets weekly to reach coherent decisions by consensus and consults with other ministries as needed. This task force deals with the EU, the international financial institutions (IFIs) and trade and has demonstrated that it is possible to reach coherent positions across the topics of bilateral and multilateral aid, trade, agriculture and anti-dumping.

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11. Parliament has 179 members.

### **Box 2. Formal consultations arrangements for EU matters**

The European Affairs Committee meets every Friday. It helps prepare the Council meetings and ensures that the minister receives a political mandate for EU discussions. There can be elaborate preparations for these meetings. Officials prepare position papers with a strong awareness of the potential political backing. The MFA has identified 12 policy coherence areas. There are internal committees for some of these areas and in others there is a need to consult with various other ministries, which makes reaching a solution more challenging. Officials try to resolve areas of disagreement at the lowest practical level, but this is not always possible. Intensely political issues will be presented to the European Affairs Committee. If the issue still cannot be resolved, the discussion continues in the Ministerial Co-ordination Group (comprised of the relevant ministers) and ultimately in parliament. This formal arrangement for consultation on EU matters builds on the established consensual approach to policy formulation and, because there are so many EU-related discussions, the arrangement is frequently used. There are recognised challenges in translating EC policy statements on poverty reduction and Africa into reality, so the Danish Representation works closely with EC officials to translate the principles into a pragmatic and transparent action plan. Danish officials suggest that policy coherence in the EC context could be improved by creating a post of “coherence co-ordinator”, but Denmark has found little support for this from other member states. Denmark could use its embassies in other EU capitals to push for agreements on such arrangements.

Following consultations within ministries, Embassies and the private sector, positions have been established for all WTO areas, and these have been approved by cabinet. These consultations on WTO matters have also been facilitated by the Beach Club in Geneva. This is an informal Danish forum of officials and NGOs who discuss issues arising in negotiations. Officials recognise that NGO views are also reflected in parliament. Although the Beach Club is an informal arrangement, it now has working groups on social policy, environment, trade and development. Different authorities are invited to meet with these groups, with consequences for policy. For example, Denmark supports NGOs working to end subsidies that adversely affect West African cotton producers. There is a history of development-friendly outcomes in co-ordinating trade and agriculture. An illustration is the EU sugar reform. The reform was discussed by the Foreign Affairs Committee, which heard various political arguments. The MFA discussed the reform with the Ministry of Food and Agriculture, which could see the views of both consumers and producers. Officials discussed policy options for spreading the price shock and phasing out production. The government gave assistance for diversification. In the end, the government did not pursue the narrow short term producer interests offered by subsidies, but took a pro-development stance.

The MFA can also ensure attention to policy coherence for development at different levels. For instance, in Ghana, the Danish embassy has to report on trade issues, which is an opportunity to note emerging coherence concerns (Annex D). Staff are also circulated between embassies and the MFA, which helps the exchange of policy and field perspectives. As yet, there are no plans for a policy coherence co-ordinator within the Danish system, as Denmark has suggested for the EC (see Box 2).

It is more difficult to reach agreement outside the foreign affairs remit, although Denmark’s small public sector means people in different ministries know each other and this can help in building consensus. For example, the MFA has worked closely with the Ministry of Integration in implementing the Regions of Origin initiative to deal with some of the causes of migration. In 2002, the Danish government stepped up this initiative as part of its political programme and now focuses on countries with large numbers of migrants (Kenya, Tanzania, Uganda and Zambia) or refugees (Somalia, Sudan, etc). The programme is intended to meet the needs of potential migrants from Africa in order to reduce their likelihood of emigrating. A small part of the programme is aimed at helping non-eligible asylum-seekers in their home countries after they return. According to the MFA, the programme has brought together multilateral and bilateral budgets and performance reviews show that the activities have been successful. So far these reviews have not fed back into the political debate. As

the arguments for and against migration for development are still being debated in Denmark, as in the rest of Europe, it is all the more crucial that the ministry's engagement in the political debate be supported by a strengthened analytical capacity to present development-friendly aspects of migration. This could help in negotiations outside the MFA's actual remit, where negotiations have to be a two-way street. It is promising in this respect to learn that migration will be one of the three priority issues in the forthcoming priority plan 2008. The MFA's capacity in this area has been strengthened, and it is a substantial research area at the Danish Institute for International Studies.

A strengthened analytical capacity is crucial to enable Danida to support the minister's effort in influencing the political agenda and address the complexity of the migration issue. There is an international debate about the interplay of migration and development, the linkage between aid, economic growth and migration, the impact of migrant remittances and the appropriateness of using ODA for dealing with the migration issue.<sup>12</sup> These are areas of analysis where Denmark could bring pro-development arguments to the political debate and to technical discussions. One opportunity for this could be the Global Forum on International Migration and Development, whose first meeting will be held in 2007. Denmark could make better use of the analytical capacity in its system, including the Danish Institute for International Studies and information received from the field<sup>13</sup>, to reinforce the leverage of the MFA in its discussion with other ministries.

Denmark has made some notable achievements in policy coherence for development, based on its consensual and organic approach. However, challenges remain in addressing emerging critical policy coherence issues, particularly when negotiations outside the MFA's remit are required.

### Future considerations

- Denmark is encouraged to build on its existing inter-governmental co-ordination committees to promote policy coherence in areas that go beyond the foreign affairs mandate. Denmark could make better use of the analytical capacity in its system to inform high level discussions of development-related areas.
- Denmark could consider how to strengthen its collaboration with other member states in promoting policy coherence matters within the EU and the OECD. In addition, making better use of its embassies in partner countries on these issues would also bring a field-based, recipient perspective on policy coherence issues into the Danish development policy debate.

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12. For example, the 2007 high level meeting discussion on migration and development provided an opportunity to share innovative policy and practical experience on how DAC member countries integrate migration in the development agenda.

13. In Ghana there is no routine reporting from the field on issues outside the foreign affairs remit (Annex D).

### Chapter 3

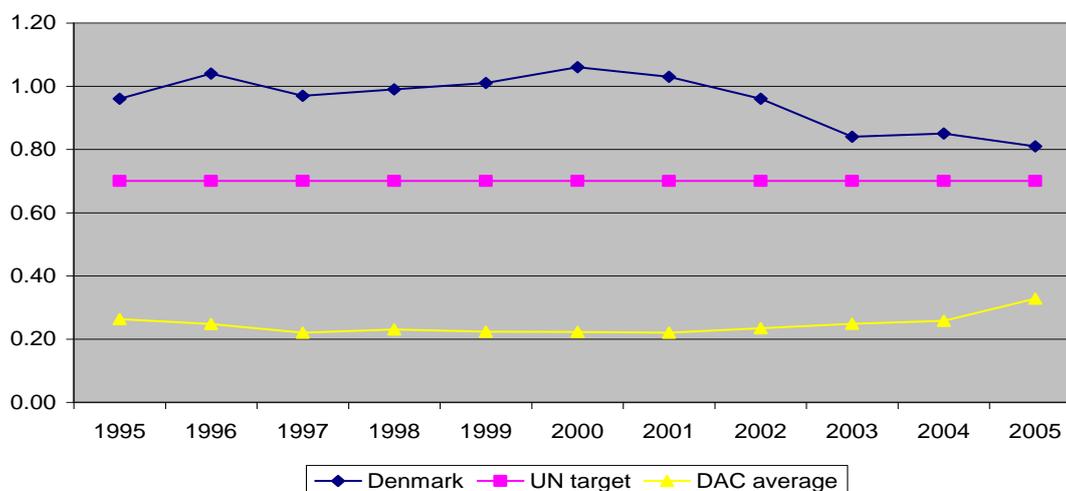
#### ODA Volume, Channels and Allocation

##### Overall official development assistance

Danish net ODA amounted to USD 2.11 billion in 2005. After a sharp decrease in 2001, aid volume has been increasing in real terms since 2003 (Table B.1, Annex B). In 2005, Denmark ranked 12<sup>th</sup> out of 22 DAC members for the volume of ODA it granted.

While the Danish ODA/GNI ratio was maintained at an average of 1% during the 1990s, it decreased from a high point of 1.06% in 2000 to 0.81% in 2005 (Figure 2). However, the level remains above the UN target of 0.7% and Denmark is still one of the most generous donors, with the fifth highest ODA/GNI ratio in the DAC.<sup>14</sup> According to preliminary figures, Denmark will remain in the same position in 2006, with an ODA volume of USD 2.23 billion and an ODA/GNI ratio of 0.80%.

Figure 2. Danish ODA/GNI trend



The government's stated policy is to achieve ODA of at least 0.8% of GNI, which exceeds the May 2005 EU Council agreement of 0.51% by 2010 and 0.70% by 2015. This commitment also gives stability and predictability to the aid programme. Denmark has recently shifted from a disbursement-based budget to a commitment-based budget. In order to reach the 0.80% target, Denmark will need to maintain flexibility within the budget lines so that overall disbursement levels effectively match overall commitment levels. Denmark will also need to ensure additional resources to fund new or extended development co-operation programmes, in addition to the planned increased effort on debt relief.

14. In 2005, the total DAC average was 0.33% and average country effort was 0.47%.

The share of debt relief in the Danish ODA portfolio has been weak so far but is expected to rise substantially. Debt relief amounted to an average of 1.8% of gross disbursements of ODA between 2001 and 2005, compared to a DAC average of 22% in 2005 (Table B.2). However, the Danish volume of debt relief increased substantially in 2006 and will continue to increase in 2007 and the following years. This increase results from the contribution to the World Bank Fund for multilateral debt relief following the 2005 G8 commitment, bilateral debt relief under the Heavily Indebted Poor Country's initiative and Nigerian debt relief. As scheduled in the Finance Act 2007, debt relief is expected to increase from DKK 670 million in 2006 to DKK 726 million in 2007 and DKK 738 million in 2008, and to stabilise at this level in 2010. The share of debt relief will reach 5.2% of total ODA in 2007, four times the 2005 level of 1.3%, and will remain at an average of around 5% of total ODA in the following years. This means that, even though Danish ODA volume will progress along with the economic prosperity of Denmark given the 0.8% threshold, part of this increase will be spent on debt relief. While debt relief nominally reduces the debt overhang of developing countries, the net impact of this relief depends heavily on individual countries' repayment history, which varies greatly.

As debt relief gains in prominence in Danish ODA within Denmark's laudable target of achieving 0.8%, Denmark should keep a close eye on its impact on net resource transfers to recipient countries. Denmark is phasing its debt relief of DKK 235 million for Nigeria over three years starting from 2007. The breakdown per year will be as follows: 2007, DKK 20 million; 2008, DKK 46 million; and 2009, DKK 169 million. This reporting in phases is an exceptional measure. The Secretariat encourages Denmark to report future expenditures against the year in which they are incurred. This will strengthen the credibility of ODA figures and will be in line with the DAC reporting rules, which specify that the "operation should be reported against the year in which the agreement to cancel legally comes into force" (see DCD/DAC(2000)16, paragraph 10). In the medium-term, Denmark will also need to consider in its five-year rolling plan how it will programme its ODA once the scope for large debt relief operations is past.

### **The bilateral channel: policies and allocations**

In 2005, 65% of Danish gross ODA was disbursed bilaterally, nearly 100% of it in grant form. Despite a longer-term trend of increasing the share of bilateral assistance, which has risen from 50% in 1985, the division between the bilateral and multilateral channel has been relatively constant since 2001.

### ***Geographic allocation: a strong focus on Africa***

Since 1989 the government has been trying to streamline Denmark's partner countries. There are currently 16 "programme countries" where long-term partnerships are established.<sup>15</sup> In 2006 Denmark added Mali to the list as part of its enhanced engagement in Africa; but at the same time it is phasing out from Egypt and no new programmes are expected in the coming years. Denmark is also gradually reducing its support to Bhutan. In 2005, 77% of all bilateral geographically-allocable assistance (excluding humanitarian assistance) was channelled to 15 programme countries, as opposed to 66% in 2002.<sup>16</sup> However, 90 countries still receive some kind of direct or indirect Danish financial assistance

15. Bangladesh, Benin, Bhutan, Bolivia, Burkina Faso, Egypt, Ghana, Kenya, Mali, Mozambique, Nepal, Nicaragua, Tanzania, Uganda, Vietnam, and Zambia.

16. Table B.4 indicates that the top 15 recipients received 68% of total gross ODA in 2004-05, compared to 73% in 1999/2000. This is explained by Denmark's humanitarian response to the tsunami, which led to increased funding in non-programme countries, especially Sri Lanka and Indonesia.

(Table B.4). Denmark is invited to maintain its high focus on programme countries in terms of resource allocation in its bilateral programme.

In 2005, 55% of Danish geographically-distributed bilateral assistance was allocated to African countries, and 52% to Sub-Saharan Africa (Table B.3). This strong focus reflects Denmark's overarching objective of poverty reduction and support to the MDGs, and is in line with its new Africa policy developed in 2004. Danish aid is also highly concentrated in least developed countries (LDCs), which represented 54% of its geographically-allocated bilateral ODA in 2005, significantly above the DAC average of 23%. This is consistent with the poverty reduction focus of Denmark's aid programme, and also places Denmark well above the UN target of 0.15% of GNI allocated to LDCs, with a ratio of 0.22% in 2005.

Programme countries have been selected on the basis of seven criteria set by the Foreign Affairs Committee of the Danish Parliament. These criteria favour well-performing countries whose governments are committed to development and human rights (Box 3). As a result, support to fragile states is limited. However, Denmark decided to stay engaged in Nepal during the last decade of civil war, as well as in 2005, despite the political situation created by the Nepalese King's takeover (Annex E). Moreover, Danish humanitarian assistance programmes set up as emergency response to crisis situations may evolve into longer-term development co-operation programmes, as is the case with Afghanistan, Sudan or Iraq. This points to the need for a coherent framework for support to fragile states, which maintains the independence of humanitarian action. This framework should include criteria for engagement or disengagement in these countries. In doing so, Denmark may want to reflect upon the need to be more engaged in fragile states or poorly-performing countries, which are less on track to meet the MDGs. Further endeavour in more difficult environments could be part of the overall effort of the international community to address the needs of "orphan" states.

### **Box 3. Parliament's seven criteria for selecting programme countries**

In 1989 the Danish Parliament's Foreign Affairs Committee established seven criteria for selecting Denmark's future partner countries:

1. The country's economic and social stage of development, its development needs and plans for development.
2. The supply of development assistance from other bilateral and multilateral donors and the country's ability to use and benefit from this assistance.
3. The potential for promoting sustainable development through dialogue with the country in question, (*i.e.* development that has no significant negative long-term economic or ecological effects and aims at creating permanent improvements for the poorest population groups).
4. The potential for co-operating with the country to promote the development of, and respect for, human rights in accordance with internationally-adopted human rights' standards, including the conventions on the freedom of association, the right to organise and to bargain collectively.
5. The potential for co-operating with the country to ensure that aspects concerning women receive a central and fully integrated position in the development process.
6. Previous Danida experience from bilateral development co-operation.
7. If the above criteria are satisfactorily met, the potential for promoting the participation of the Danish business sector and thus employment in Denmark in development co-operation should enter deliberations on the specific selection of countries, on condition that Danish supplies and services are competitive with respect to adapted technology, price and quality.

Source : Danida's annual report 2005, Ministry of Foreign Affairs, Copenhagen

***Sector allocation: strong focus on the social dimension of poverty reduction***

The Danish development assistance programme is strongly focused on **social infrastructure and services**, which accounted for 43% of its bilateral ODA commitments in 2004-05, up from 34% in 1999-2000. Notably, there was a sharp increase in the support to “government and civil society”, from 6% of total Danish bilateral commitments in 1999/2000 to 13% in 2004/05. Support to economic infrastructure and services declined from 24% of bilateral ODA in 1999/2000 to 15% in 2004/05, while the support to production sectors remained stable (Table B.5). Even though the focus on social aspects is justified by their importance for achieving most of the MDGs, Denmark could consider balancing its support to social sectors with support to economic growth which benefits the poor. In doing so, Denmark will need to take account of the national context, the division of labour among donors and its own comparative advantage. For instance in Nepal, Denmark’s long-term support to the energy sector is an asset. Denmark could extend its engagement in this area, which to date has mostly focused on delivery, to more direct support to productive activities and natural resource development, which will be crucial for poverty reduction. Denmark’s renewed support to private sector development in partner countries could also be beneficial in this respect (Chapter 6). Meanwhile, in a longer-term perspective of strengthened division of labour among donors, Denmark may want to reflect on its areas of specialisation.

In each programme country, the Danish aid programme is adequately focused on a **small number of sectors** (three sectors in Nepal, four in Ghana) through long-term support, and this enables Denmark to develop a real comparative advantage. However, while Denmark voluntarily tries to reinforce its sector focus, new programmes tend to cover a wider range of issues. This is the case for the governance programme in Nepal, which includes seven different components. It is also true of the new decentralisation programme in Ghana, which is seen as an opportunity to merge complementary components from the decentralisation, transport and water programmes, whilst phasing out direct support to feeder roads and water supplies. These programmes may be rationalised with fewer components in the next phase in order to retain efficiency gains in key sectors.

There has been a tendency to emphasise different priorities each year, but it is not clear what effect a stronger focus on some priorities will have on the funding of others within the five-year cycle. For instance, the Priority Plan 2007-11 sets good governance, women and HIV/AIDS as key priorities (MFA, 2006e). As a consequence, in 2007 an additional DKK 500 million is being allocated to new bilateral initiatives to promote good governance in six country programmes and another DKK 140 million is earmarked for promoting women as a driving force in development. Support to combat HIV/AIDS in Africa is also being reinforced by new initiatives through both bilateral and multilateral channels in the coming years, and could equal up to DKK 1 billion in 2010. In addition, bilateral environmental initiatives are earmarked for DKK 480 million per year. However, with multiple channels for allocating these resources (multilateral, bilateral, in sector programmes or under specific projects), it is difficult to assess how cross-cutting issues are translated into budgeting and programming over a period of time. For instance, a complete picture of Danish aid to support gender equality is not available, mainly because most Danish aid is given as sector programme support where gender equality activities are mainstreamed into the programme. Improved markers for priorities would help tracking them in the budget. This would then enable Denmark to better assess the link between inputs and results. A promising development is a new system to estimate budget allocations to cross-cutting objectives in Danish funded programmes, to be introduced before the end of 2007.<sup>17</sup>

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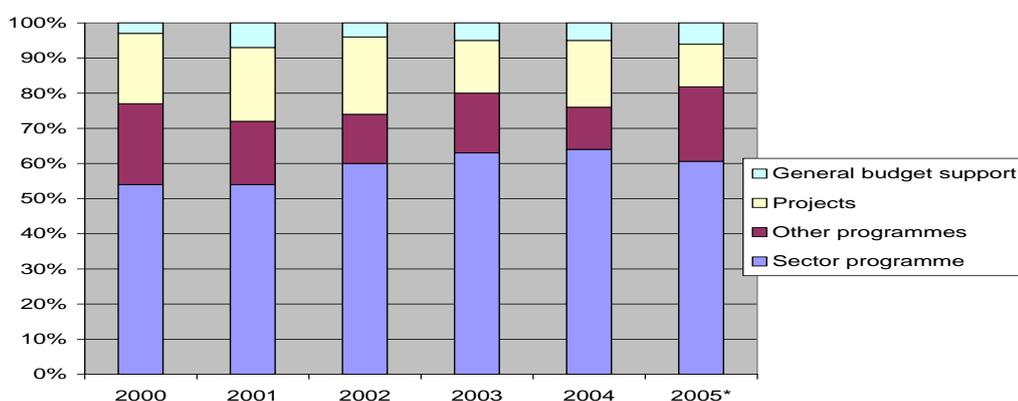
17. The system will be based on markers established in the programming phase but will also be applied to existing programmes. It will be based on markers accompanied by a weight in percentage of the

Denmark has so far been able to avoid setting input targets for its development programme, even though there is pressure to earmark funds for political visibility. Engagement in HIV/AIDS in Africa is a response to such pressure. Denmark is encouraged to continue to be flexible in allowing each country to identify the appropriate mix of sectors, taking into account national priorities and other donors' involvement. To this end, Denmark is encouraged to continue its current policy of not setting global sector spending targets.

***Aid modalities: sector programme support is the main modality***

A high proportion of bilateral assistance goes to long-term sector programmes and this is increasing. As Figure 3 illustrates, they accounted for 60% of Danish bilateral assistance to programme countries in 2005, compared to 54% in 2001 (Figure 3). At the same time, the share of stand-alone projects decreased from 21% to 12%. General budget support to programme countries remains low at around 6%. Another bilateral trend includes a declining use of technical co-operation (Chapter 6).

**Figure 3. Modalities of Danish assistance to programme countries (expenditure)**



\* Preliminary

Source: NAO, 2006b, *Performance Review of Harmonisation and Alignment in Danish Bilateral Assistance*, National Audit Office, Copenhagen.

***Danish NGOs***

Since 2003, the amount of Danish ODA allocated to and channelled through NGOs has increased slightly from DKK 866 million (USD 139 million) to DKK 932 million in 2007 (USD 165 million).<sup>18</sup> The percentage of ODA to and through NGOs has remained constant in recent years (around 7 to 8 percent of total net ODA), which reflects the DAC average (Table B.2).

The share of Danish aid channelled through Danish NGOs is higher for humanitarian assistance. This reached a peak in 2005 when 36% of all Danish humanitarian assistance was channelled through NGOs. This was mainly due to extraordinary relief funds for the tsunami disaster in Asia in December

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overall budget for a programme, component or project for cross-cutting issues and HIV/AIDS activities. It will cover both mainstreamed and targeted interventions.

18. Finance Bill 2007, Ministry of Finance, 2006

2004. As a result, Danish ODA channelled to and through NGOs amounted to DKK 1295 million (USD 233 million) that year.<sup>19</sup>

In 2005, almost 80 NGOs received funds directly from MFA for development assistance and humanitarian assistance. In addition to this, a substantial number of NGOs receive funds from mini programme grant facilities administered by four different umbrella organisations. Danida NGO grants were allocated to approximately 60 countries, with the bulk of the grants going to Africa (44%). Asia and Latin America received 22% and 15% respectively. This breakdown reflects the Danish focus on Africa, but also shows that NGOs are slightly more committed in Latin America than is the MFA. This partly explains the high number of countries (90) receiving Danish ODA.

A number of Danish NGOs also obtain their own financing through fundraising and membership fees. In 2006 the three most important of these NGOs were the Child Fund, Danish Red Cross and DanChurchAid, each having raised around USD 25 million from private funds. Until 2005, some of the six NGOs that have a four-year framework agreement with the MFA<sup>20</sup> were 100% funded by Danida. Since then, these “framework NGOs” are now required to source a percentage of their programme funds themselves: 5% of the funds for co-financed programmes in 2006, rising to 10% in 2007. In addition, all NGOs receiving funds from Danida’s NGO grant can spend up to 2% of their grant on information activities in Denmark, but can no longer receive funds from the special budget for development education (Chapter 1). This reflects the government’s wish to have more independent NGOs, which have a broader public foundation and are able to engage their members in a dialogue on priorities. All framework NGOs have licenses to conduct door-to-door campaigns. Although some NGOs find this shift difficult to manage and feel more vulnerable than before, others agree with its rationale.

### **The multilateral channel: policies and allocations**

The share of ODA allocated through multilateral organisations amounted to 36% in 2005. However, a 2005 review of Denmark’s multilateral assistance resulted in a decision to reallocate USD 25 million from multilateral to bilateral assistance. The aim was to align the balance between the two channels with the balance of the Nordic group and to focus assistance where it is most effective. This was done by reallocating a number of multilateral regional projects to bilateral projects, to a large extent within the same area. In addition, annual contributions to some UN specialised organisations were reduced. In particular, Danish annual contribution to the International Fund for Agricultural Development has decreased from USD 8.3 million to USD 3.3 million from 2006.

### ***A key contributor to the UN***

Denmark provides strong support to the UN, with 14% of its total gross ODA allocated to UN agencies in 2005 (compared to a DAC average of 5%). It has been one of the top 10 contributors to the core budgets of most of the key UN organisations and is also able to provide rapid and flexible support to UN agencies when necessary, as occurred in Nepal in 2005/06 (Annex E). Other non-core contributions are to a large extent earmarked to poor countries in Africa. The United Nations Development Programme (UNDP) and the United Nations International Children’s Emergency Fund (UNICEF) are the main UN recipients of Danish funding (Table B.2).

19. *Danidas NGO-samarbejde*, MFA, Danida, May 2005.

20. Mellempfolkeligt Samvirke (MS), Danish Church Aid, Danish Red Cross, Ibis, Care Denmark and Danish Save the Children. More than 50% of the NGO grant is allocated to these six NGOs. Other NGOs can access funding either through the single grants or the mini-programmes window, following specific guidelines available on the Internet.

***Becoming more strategic***

Denmark sees bilateral and multilateral channels as complementary and has been able to develop synergies between its bilateral programme and the multilateral channel (Box 4). Like its bilateral programme, Denmark's support via multilateral organisations aims at reducing poverty and achieving the MDGs. A performance review of MDGs in Danish multilateral assistance was completed by the National Audit Office (NAO) in 2005. This found that Denmark has strategically prioritised the MDGs when planning its multilateral assistance. At the same time, the review recognises that many parameters are taken into consideration when deciding on the allocation of funds to multilateral organisations (NAO, 2005). Denmark could reinforce its strategic approach in order to be more influential within the multilateral system. It might reconsider whether it should engage with fewer international organisations than the 38 it currently supports. To do so, Denmark could build further on its reorganisation linked to the 2005 decentralisation of its multilateral programme. Since then, the day-to-day responsibility for the contact with multilateral organisations has been transferred from the Danish MFA to Danish UN missions in New York and Geneva and to the embassies in Washington and Rome (Chapter 4).

***Promoting the effectiveness of multilateral aid***

As part of the government's overall priorities for development assistance, Denmark tries to link resource allocation to multilateral organisations and their performance with efficient support to the MDGs. Denmark considers weaknesses in organisations' results-based management and evaluation systems as the major challenge (MFA, 2006b). To address issues such as this, Denmark is actively promoting Joint Donor Strategies for multilateral organisations. In 2005, in co-operation with other donors, it conducted an innovative investigation of the UNDP's evaluation and results-reporting systems. A results-based management assessment of UNICEF is also being done jointly with five other donors. Denmark also participates in the Multilateral Organisations Performance Assessment Network (MOPAN), which is a joint bilateral initiative to assess the partnership behaviour of multilaterals at country level. The NAO's report on Danish multilateral assistance invites Danida to go further in initiating external evaluations together with other donors, including administrative audits (NAO, 2006a).

**Box 4. Making use of the decentralised system to combine multilateral and bilateral approaches:  
The example of Nepal**

Denmark has been able to develop positive synergy between its bilateral and multilateral channels in the complex situation in Nepal. In the human rights arena, as well as running an ongoing bilateral programme on human rights and governance, Denmark advocated through its embassy in Geneva to involve the Office of the High Commissioner for Human Rights (OHCHR) in Nepal. When the OHCHR was ready to start work in 2005, the Danish Embassy in Kathmandu was ready to fund the operation and immediately provided 32 vehicles, enabling OHCHR to get going straight away.

Denmark also supports the peace process through bilateral and multilateral channels. On the multilateral side, Denmark was one of the first donors to pledge USD 1 million to support the UN peace mission in Nepal in December 2006, through the trust fund set up to finance the UN mission. It also immediately provided 160 computers and a full monitoring system for the election process. Denmark's bilateral support will focus on a few key areas based on the new development plan to be produced by the government. This plan will be designed in close co-operation with other like-minded donors and will be delivered through a multi-donor trust fund.

Denmark's Ambassador in Kathmandu provides significant support to the core group in Geneva in charge of humanitarian assistance to Bhutanese refugees in Nepal. Denmark is also an important contributor to the Office for the Co-ordination of Humanitarian Affairs (OCHA) consolidated appeal for Nepal.

**Future considerations**

- The Development Assistance Committee commends Denmark's decision to maintain ODA at a minimum of 0.8% of GNI, and encourages it to continue this policy.
- Denmark is encouraged to further develop a coherent strategic framework for engaging in fragile states.
- Denmark is encouraged to continue its current policy of not setting input targets. It could consider better balancing its support to social sectors with support to economic growth which benefits the poor, provided this is in tune with the outcome of the ongoing debate on complementarity and division of labour between donors.
- Denmark could build further on its decentralised approach to reinforce its strategic approach to multilateral organisations, including maintaining a strong results orientation.

## *Chapter 4*

### **Organisation and Management**

#### **Organisation**

##### *Decision-making authority in the Danish system: key stakeholders*

Authority within the system lies with the Minister for Development Co-operation, advised by the Danida Board, within a political mandate agreed with the Danish Parliament (Figure 1 in Chapter 1).

The Minister for development co-operation has the final responsibility on all matters relating to Danish development assistance, including strategies, action plans and policies. Every year, she presents Denmark's development co-operation annual priority plan together with a five-year budget plan which is then included in the Finance Bill. Within the MFA, the South Group, whose development activities are commonly known as Danida, is responsible for the overall management of Danish bilateral and multilateral development co-operation.

Parliament closely follows up on the Danish development co-operation programme. It endorses annual development co-operation priorities and discusses the development assistance portfolio as part of the negotiations over the annual Finance Bill proposal. The section on development assistance in the Finance Bill differentiates between direct allocations and frame allocations, where commitments over DKK 30 million (USD 5 million) must be approved by parliament's Finance Committee. In addition to this committee, the Foreign Affairs Committee is highly involved in development co-operation, especially strategies and major policy issues. These two committees regularly visit programme countries as well as other countries and international organisations relevant to Danish development co-operation. They closely follow-up on the programme as well as the international agenda on development and emerging issues. This results in well-informed committees and high political support. However, parliament's strong oversight may also lead to an overemphasis on the need for accountability and transparency. This therefore carries the risk of favouring relatively well-performing countries, setting sector targets, or being strict over financial control. Danida has so far strategically managed its relations with parliament in this respect, stressing the need to report on outcomes rather than attributing specific results to Danish inputs. It will need to pursue this line and advocate that development requires innovative and flexible approaches in complex environments.

The Danida Board is another key stakeholder in the Danish system. It is composed of nine eminent Danish personalities appointed in their personal capacity and coming from the business sector, the research community and civil society. The board provides the minister with independent professional and technical advice on proposed activities, programmes and action plans. It was created as an advisory body in 1971 under the Act on International Development Co-operation. While the minister holds the full political authority for approving grants within the framework approved by parliament<sup>21</sup>, the Danida Board is given a key role in a number of areas: i) with respect to allocations

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21. The Finance Committee has delegated the approval authority for allocations below DKK 30 million to the minister.

to development co-operation programmes, NGO projects and research activities, grants between DKK 5 and 10 million are submitted to and endorsed by the chair of the board – with the minister and the board informed at a subsequent board meeting; and grants above DKK 10 are submitted and endorsed by the board;<sup>22</sup> ii) the board provides advice to the minister on bilateral and multilateral development co-operation policy papers; and iii) the board is also highly involved in country programme monitoring. To this end, it establishes direct links with stakeholders, for instance making use of videoconferencing with embassies when discussing a sector programme, and members normally visit one to two programme countries each year. The board ensures a political and technical quality at high level and its role is clearly felt to be beneficial by Danish stakeholders. This set-up adds continuity and stability to development policy, tempering swings that could otherwise result from changing governments. It leads to strong involvement and deep knowledge on the part of the various stakeholders and also heightens public trust in the process. However, it is important in such a set-up to maintain clarity over the advisory role of the Danida Board so as to prevent confusion over roles and lines of responsibilities in the Danish system.

The 1971 Act also created the Council of international development co-operation (see Figure 1) as a forum for public debate on current development policy issues. It is presently headed by the Chair of the Danida Board and is composed of 60 members, both individual personalities and representatives of Danish organisations. It organises three to five public conferences per year, but its role has been declining over the years.

### *An integrated system within the Ministry of Foreign Affairs*

The Danish Foreign Service is a globally-operating organisation. It includes the MFA in Copenhagen plus a global network of 71 embassies and seven diplomatic missions to international organisations. Danish development co-operation is integrated within the Danish Foreign Service both at headquarters and in the field, where embassies manage the development programme.

Within the MFA, the South Group is responsible for the overall management of the Danish bilateral and multilateral programme. The South Group's management structure consists of the Head of the South Group and the Heads of Bilateral and Multilateral Affairs. The South Group comprises 12 departments plus Danida's Centre for Competence Development (DCCD). Four strategic departments report directly to the Head of the South Group (Figure 4):

- The Department for Development Policy has overall responsibility for the formulation, planning, and coordination of Denmark's development policy. It also provides secretarial and communication support to the key stakeholders of Danish development co-operation, in particular the Minister for Development Co-operation; parliament (Foreign Affairs Committee, Finance Committee); and the Danida Board.
- The Department for Quality Assurance was established as part of the decentralisation process in 2003. It is responsible for Danida's performance management system, including quality assurance and financial management of Danish development co-operation.
- The Technical Advisory Service is responsible for the technical quality of development co-operation in sector programme support and other programmes and projects. It supports

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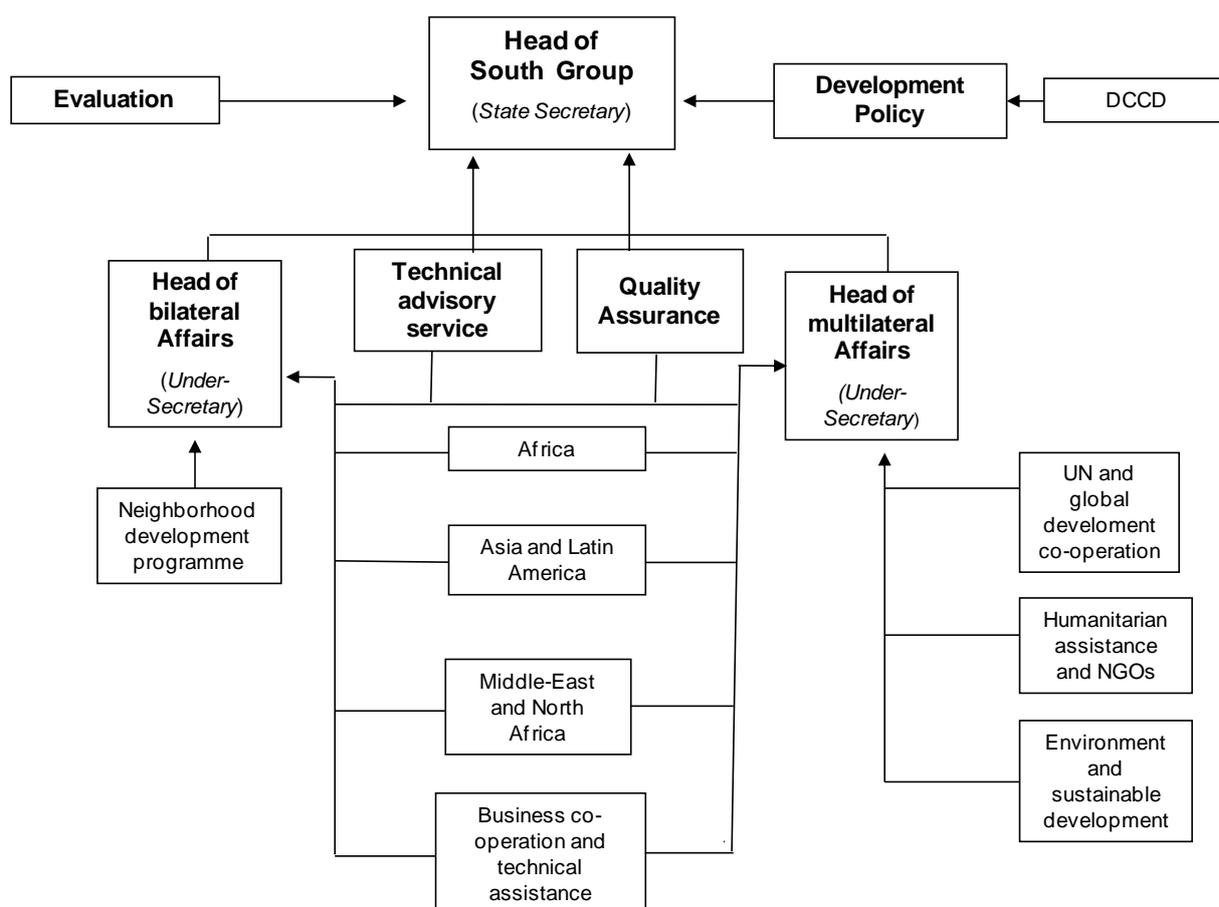
22. Humanitarian assistance and regular contributions to multilateral organisations are excluded. Approval of grants below DKK 5 million are delegated by the minister to relevant departments and embassies; for certain grants above DKK 30 million, the grant must be approved by the Parliament's Finance Committee.

the embassies in implementing the results-monitoring scheme, and was therefore strengthened following decentralisation.

- The Evaluation Department is responsible for evaluating the performance of Danish development co-operation through evaluations and quality controls, and providing feedback to the MFA about development co-operation processes and results. It ensures accountability to the political community and to the public by disseminating evaluation results.

The remaining departments have a geographic, thematic or support function. They include four regional departments and two thematic departments (Environment and Sustainable Development, and Business Co-operation and Technical Assistance). In addition, the Department for the United Nations and Global Development Co-operation formulates multilateral strategies and is responsible for Denmark’s relations with the UN, International Development Association and regional development funds, including related cross-cutting issues such as debt relief. The Department for Humanitarian Assistance and NGO Co-operation covers Denmark’s humanitarian policy and relations with humanitarian agencies, as well as policy development and collaboration with Danish NGOs, including support to civil society in developing countries.

**Figure 4. Organisation chart of the South Group and lines of reporting**



Source: (MFA, 2006f), Organisation Manual for the Management of Danish Development Co-operation, MFA, Copenhagen.

Decentralisation (see below) has altered the roles and powers of different departments for implementing development assistance. Prominent roles were given to the Quality Assurance department and the Technical Advisory Service, which are the key contacts with Danish embassies in programme countries. The regional departments, which answer both to the Head of multilateral affairs and the Head of bilateral affairs, are now more focused on regional policies and their role seems composite. On the one hand, they are responsible for the aid programme in non-programme countries, although the division of responsibility with Embassies/Representations in these countries differs considerably among countries. On the other hand, their role is limited to policy in programme countries and in relation to the multilateral organisations. There is a need to clarify respective responsibilities and working relationships particularly with embassies in non-programme countries, and at headquarters' level with respect to policy (with the Department for development policy) and multilateral co-operation (with the Department for the United Nations), since there may be overlaps. Clarification is also needed with respect to the humanitarian assistance programme. Decentralisation of the multilateral programme has made co-ordination more of a challenge for this programme, which has major UN partners, and more clearly defined responsibilities are needed between the different departments and missions. Equally, responsibility for disaster preparedness and risk reduction should be shared with the development side of Danida as part of country strategies, rather than being just the responsibility of the humanitarian department.

### *A decentralised programme*

In 2003, Denmark's bilateral development co-operation in programme countries was decentralised, in order to facilitate harmonisation and alignment at partner country level. The multilateral programme was then partly decentralised in 2005.

#### *Decentralisation of the bilateral programme in programme countries*

A special Danida task force began preparation for decentralisation in July 2002 and the process was completed in September 2003. Decentralisation meant that additional tasks were transferred to Danish embassies, especially for identifying and preparing country programmes (Box 5). A Quality Assurance Department was set up at headquarters and the Technical Advisory Service Department was restructured to accompany the process.

#### **Box 5. The role of Danish embassies in development co-operation**

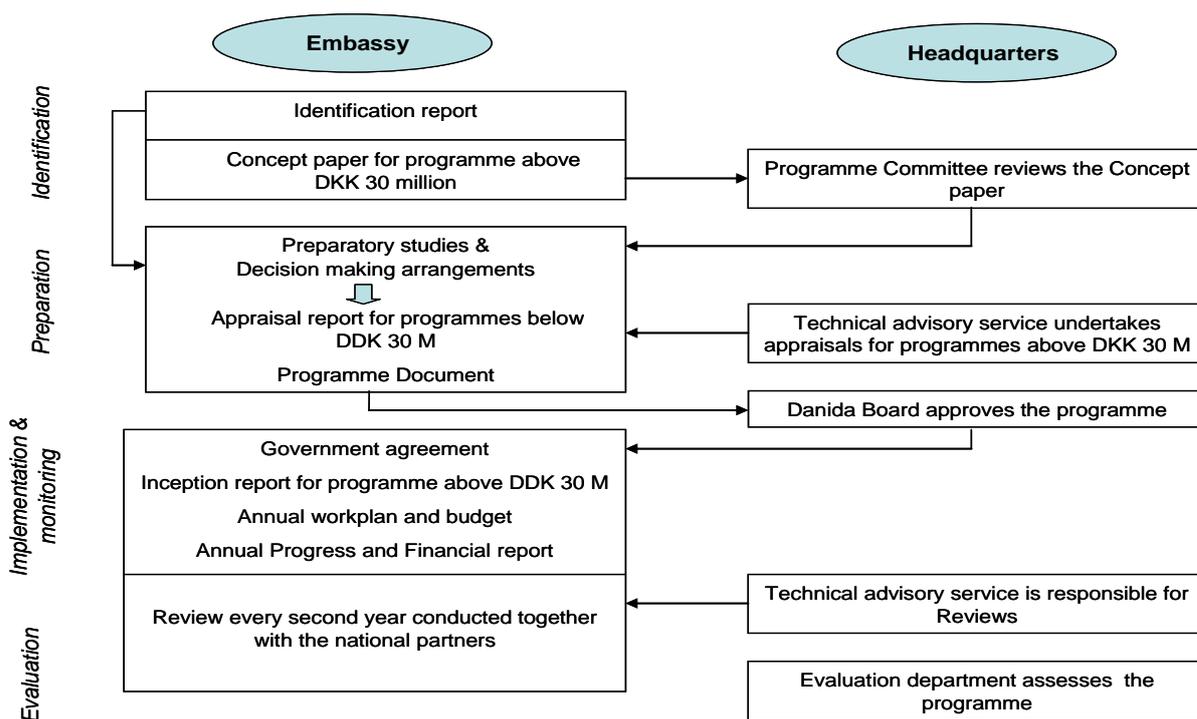
The main tasks of Danish embassies in programme countries (and in Afghanistan, Gaza/West Bank, Indonesia, Malaysia, South Africa and Thailand) are to ensure the effective and efficient identification, preparation and implementation of Danish development co-operation according to the established policies and programmes. Their core responsibilities include: i) monitoring and management of the country programme according to the annual business plan; and ii) identification, preparation and implementation of Danish bilateral development co-operation in the partner country, according to policies and guidelines, programme documents and appropriation regulations. In non-programme countries, the role of the embassy is limited to ensuring the effective implementation of the programme.

In all countries, Danish representations are also responsible for i) monitoring the political, economic, social and human rights situations as well as development co-operation processes in the partner country and reporting on this on a regular basis to the Regional Department; ii) ensuring knowledge sharing among partners in the system and iii) implementing the MFA's communication strategy. The Head of Representation is responsible for personnel management as well as for financial management and accounting.

A results contract and a business plan are signed each year by the Head of Representation. These documents outline outputs, expected results, specific responsibilities and the authority involved in delivering these results, as agreed between Representations and the MFA. The results contract defines the embassy's contribution to MFA's overall strategic objectives (foreign policy, consular activities, commercial activities etc.). The annual business plan is specific to development co-operation activities. It sets out the expected activities, budgets, resources and outputs for each country programme on an annual basis, with related objectives, targets and indicators.

Decentralisation means that, while major policy issues and final funding decisions remain in Copenhagen, Danish embassies have a key role in preparing new programmes. Once a programme is approved, embassies have complete freedom to manage it, including reallocating part of the funding (up to 10% in aid volume) whenever necessary. Many day-to-day decisions are therefore decentralised (Figure 5). The decentralisation of the Danish system seems to be well-balanced, allowing for autonomy within a common development co-operation policy. Twice a year, all the Danish ambassadors meet in Copenhagen to discuss development assistance. Video conferencing is also used extensively, keeping costs down and helping to maintain strong links within the decentralised system. Decentralisation is clearly beneficial for effective aid delivery, particularly as it allows greater flexibility and responsiveness to local circumstances, which supports the aid effectiveness agenda. This was confirmed in both Nepal and Ghana.

**Figure 5. Programme cycle in the Danish decentralised system**



The system of reporting on development issues has been streamlined and reduced, but more could be done in this respect since reporting requirements remain heavy (see below). In addition, *ad hoc* requirements - not necessarily related to the aid programme - put additional pressure on the embassies. As a result, the workload remains high for embassies, especially those which cover several countries and/or areas other than development co-operation, as is the case for Ghana (Annex D).

### *Decentralisation of the multilateral programme to four multilateral representations*

In 2005, the Danish programme was also decentralised in four multilateral representations: the UN missions in Geneva and New York, and the representations in Rome and Washington. The main development co-operation task of these missions is to manage all organisation-specific issues relating to the locally-based multilateral organisations – with a few exceptions, such as International Finance Corporation. The tasks include policy dialogue, management of Danish contributions, co-ordination with donors and with relevant Danish actors, assessment of the performance of the organisations, and reporting to the management of Danida, the Danish Parliament and the Danish public. In the other multilateral representations, including the EU Representation in Brussels, the main task is to promote Danish development policy priorities within the multilateral system. The representations are also expected to assess the performance of individual organisations and the appropriateness of Danish support. In each multilateral post, whether decentralised or not, the Head of Mission signs a results contract annually and reports on the results achieved.

The combination of a decentralised but highly integrated system within the MFA (both at headquarters and in the field) ensures coherence and facilitates communication. While the scope and impact of decentralisation is less clear for multilateral representations, strong links are maintained throughout the system, with direct communication links between the different actors (embassies, headquarters, multilateral posts). This helps establish synergies between bilateral and multilateral channels, as is the case for the human rights programme and support to the peace process in Nepal (Annex E). This is a powerful arrangement particularly in fragile states like Nepal. Denmark is invited to undertake an evaluation of its decentralisation exercise, which could benefit other DAC members engaged in a similar process as well as those considering decentralising, including new donors.

### ***Working through NGOs***

Historically, Danish NGOs have played an important role in formulating Danish development policy and they are still considered very valuable partners by the MFA. They are also important partners in humanitarian assistance, and several of the large NGOs are among the biggest recipients of funds for both development and humanitarian assistance. The NGOs have a positive and open dialogue with the MFA, and some of the larger NGOs also have representatives on the powerful Danida Board as well as in the Council. Annual consultations take place between the MFA and the six “framework NGOs”, as well as with four umbrella organisations and the few individual NGOs that receive humanitarian funds. These consultations aim at agreeing on common strategic objectives for the coming years. Humanitarian assistance activities and strategies are co-ordinated in the Humanitarian contact group, established in 1995 (Annex C). Despite this structured relationship, some NGOs are sceptical about the predictability of funding from the MFA and believe that their influence on policy-making has decreased during the incumbent government.

Danida’s co-operation with NGOs was set out in a strategy in 2000 (MFA, 2000b). This stated the importance of the public foundation of Danish NGOs, which was seen as a comparative advantage and is a precondition for receiving public support. The recent requirement to fund part of co-financed activities has been criticised; some “framework NGOs” found this shift difficult to manage, although others agree with its rationale (Chapter 3). The strategy acknowledges NGOs’ strengths in terms of their specific knowledge of developing countries. However, it emphasises the need to improve the quality of their activities. NGOs have thus been encouraged to focus their activities in fewer and more specialised areas. The strategy also emphasises the need for partners’ ownership and capacity-building in all projects and programmes. Rather than being involved in social service delivery, NGOs are encouraged to build capacity of civil society organisations in partner countries to enable them to run their own projects, including advocacy campaigns, and to act as change agents rather than service providers.

In order to strengthen the capacity of Danish NGOs and bring more coherence to their activities, the MFA encourages NGOs to form networks and alliances. Danida's Project Counselling Service (PCS) is one such initiative. This association of small and medium-sized NGOs was established in 1995 with less than 40 members; 10 years later it had more than 190 member organisations.

This effort could be pursued further at country level to improve synergy and complementarity between Danish embassies and NGOs. It could be done by giving a stronger role to embassies to monitor NGO programmes, thus helping embassies stay informed of overall progress and ensuring that NGO-funded activities are well-coordinated within the country. An audit of the strategy may be an opportunity to consider how to address this issue and reinforce the role of embassies in relation to NGOs.

## **Management**

### ***Toward a results-based management system with stronger focus on quality***

Denmark has a long tradition of results reporting. In 2003, it established a performance management framework focusing on results. This had three main objectives: i) to enhance the quality of Danish development co-operation through greater focus on results; ii) to improve management and continuous learning through better information and reporting; and iii) to strengthen accountability through performance assessments and measurement in the context of an increasingly decentralised management system. New tools have been developed to further strengthen the performance framework and updated information is available on the Internet, in particular the guidelines for programme management, which apply to all programmes exceeding DKK 5 million (MFA, 2006g). The reorientation of the Technical Advisory Service seems to have settled into a supportive role in the decentralised system. Its responsibilities include ensuring the integration of poverty-orientation, cross-cutting issues, priority themes, and national economic and institutional reforms into development activities, and it provides technical advice to this end. Its efforts have had positive results in terms of programming process in the decentralised context.

Five-year country strategies provide the broader strategic framework for Danish development co-operation in a partner country and outline how Danish support contributes to reducing poverty. In the revised guidelines for country strategy processes (October 2006), the fixed five-year country strategy norm has been replaced by a more flexible model which allows alignment to partner country cycles and/or joint assistance strategy cycles. This change will gradually come into play as old strategies expire over the coming years. While performance monitoring does not aim to attribute overall results in a country to Danish inputs, at programme level it enables Denmark and partners to track progress against objectives and expected results outlined in programme and project documents. The core tools for the results-oriented management system at the country programme level are the results contract and the business plan signed annually by heads of mission. Reporting requirements and performance feedback are entered into a unique database. They include, at the embassy level:

- i) Annual assessment of a country programme. This self assessment includes reporting from programme assessments done in connection with programme reviews. It includes a qualitative review of i) the situation in the country; ii) general budget support; iii) programme development, covering all sectors as well as cross-cutting issues and priority themes; and iv) reporting on Danida's Anti-corruption Action Plan. It constitutes the representation's report to the Board of Danida in years when there are no high level consultations. It also feeds into the annual performance report and report to the Auditor-General.

- ii) Performance reviews of the bilateral development co-operation programme are carried out every two years by the Quality Assurance Department. They involve a transparent process and use the same terms of reference each time. These reviews assess whether practices and activities agree with stated policies, goals, plans and procedures. They cover the internal organisation and management system, the aid effectiveness agenda and financial management. Handled as peer reviews, these performance reviews provide many opportunities for learning and offer key support to the embassies. For instance, clear organisational manuals developed by Nepal and Vietnam have been used by Performance Review teams as best practice to inspire other embassies. Results are published on the intranet and an annual report of all reviews is prepared and discussed in the Programme Committee to follow-up what was learned in the process. A third round of performance reviews is now being planned.

In addition, at the programme and project level, results-monitoring includes: i) annual progress and financial reports on programmes and projects; ii) annual programme reviews, which are mainly policy-oriented and focused on the overall implementation of national sector policies, strategies and programmes, and on the performance and relevance of Danish support; iii) programme and project Completion Reports finalised at the end of a programme phase or project; and iv) annual assessment by independent auditors of all Danish supported programmes and projects, and a final audit at the end of all programmes and projects.

The results monitoring scheme was introduced in 2003 and has been adjusted since. Having only one tool to measure progress is useful and Danida is making efforts to streamline its robust reporting system. It should consider the following issues when reviewing the system:

- At the embassy level, Danida's planning system could be further rationalised around one steering document. As regards monitoring, while self assessments help maintain focus on key aspects of the country programmes and are certainly useful for driving them, there may be a bias in their results, given the fact that less satisfactory and unsatisfactory rates require that the embassy undertakes adjustments. Danida will need to consider how to manage this risk. Embassies should also play a greater role in humanitarian reporting (Annex C).
- Danida should also make sure that there is no mismatch between the workplan stemming from a performance review and the resources available to embassies – particularly as short-term staffing flexibility may be limited. This points to the need to focus on results both in balancing available human resources with programme resources through the appropriate use of instruments, and accounting for inputs. It also raises the issue of the appropriateness of the current commitment budget system and the opportunity to move to results-based budgeting. Danida should consider further how it can effectively integrate results-based budgeting with this accounting system (Chapter 5).
- Addressing cross-cutting issues and priority themes remains a major challenge at country level, as is the case for many donors. Key elements to address this include the systematic screening of these issues at an early stage in the process of preparing programmes (the concept note); their consideration in each programme document; and systematic reporting in the monitoring tools. These steps will respond to NAO's concern about lack of transparency (NAO, 2006). There may be a need to prevent any downside in terms of reporting on cross-cutting issues and priority themes. Progress has already been made on this since the end of 2006, with existing reporting requirements for each theme generally being replaced by an overall reporting plan focusing on outputs; whereas national indicators in partner countries are used to assess outcomes and the impact of efforts.

- The Quality Assurance Department, responsible for Danida's performance management system has played an important role in developing and maintaining key performance management tools. This role may need to be reviewed, taking into account the functions of the Technical Advisory Service.

### *Management of human resources*

The total number of staff employed by the South Group, including MFA representations, is 1 087 (Table 1). Decentralisation increased the proportion of staff working abroad, who now number 73% of all staff. Compared to 2003, the number of staff working in Copenhagen fell from 347 to 295 in 2007. This decrease is a result of both the finance restrictions in the Danish public service over the period and the decentralisation process. More employees have been posted to partner countries: there were 231 out-posted staff in 2007 compared with 151 in 2003. This follows a recommendation in the previous review that every effort be made to protect field staff from government-wide staff reductions. In 2003 in particular, as part of the decentralisation process, one additional Danish staff member was appointed to each programme country.

**Table 1. Staff number in the South Group (as of 1 February 2007)**

	South Group	Programme countries
<b>Employees based in Denmark</b>	<b>295</b>	
<b>Total number of employees abroad, made up of...</b>	<b>792</b>	<b>459</b>
... out-posted staff	231	140
... locally-engaged staff	561	319
<b>Total number of employees in the South Group</b>	<b>1 087</b>	

Source: MFA.

Programme countries now have a total of 140 posted staff plus 319 local employees, accounting for 42% of the total staff of the South Group (Table 1). However, given the number of tasks transferred to the embassy level as part of decentralisation, Danish embassies in programme countries operate with a lean staff structure and further cuts in human resources may threaten the quality of operations. In Ghana, there are deficits in some important areas of expertise, and in some sectors the number of technical staff in headquarters is insufficient to meet all the demands from the different embassies. Also, the balance of resources in the Humanitarian Department to engage extensively on policy as well as manage crisis response should be reviewed. To partially resolve this issue, there is scope to promote further joint analysis and burden sharing among the donor community and benefit more from each donor's expertise. In Nepal, an external Danida unit manages the labour-intensive Governance and Human rights programme, alongside the embassy. Danish embassies should make sure that such arrangements, which reduce staff in the embassy, also translate into efficiency gains. Relying on bilateral advisers can also compensate for lack of capacity and also helps achieve the right skill mix in a context where, within the MFA, the flexibility to adjust the staff skills to new requirements is limited and takes time. The use of bilateral advisers working on a contract basis for two to three years on a programme was quite extensive in 2000/01, with up to 271 advisers in 2001, but this then diminished to a level of 208 in 2005.

In general, Denmark relies more than before on locally-engaged staff. Their number has more than doubled in the last four years, from 263 to 561. To build more on this positive move, Denmark will need to consider career development for these staff so as to: i) ensure continuity, which is a risk in a country like Ghana; ii) develop further opportunities for training; and iii) provide local staff with

opportunities for greater responsibility. This will mean improving the use of English in Danida official communication. For instance, local staff members in Nepal apparently remain in quite low-ranking positions partly because of the requirement to communicate with Copenhagen in Danish.

Gender balance is an issue both in headquarters and the field. There are few women with higher level responsibilities in Copenhagen: there are 3 women out of 15 positions in the senior management of the South Group, and only a small number of women are posted abroad. Denmark could analyse the reasons for this situation. This would help the MFA consider how to empower the female staff in Copenhagen and design the incentives needed to post more women to embassies.

The use of e-learning is beneficial to the organisation. Not only is it a cost-effective communication tool, but it can also help provide individually-tailored training, including concentrating training in summer for staff posted abroad. The establishment of Danida's Centre for Competence Development (DCCD) in 2002 was a major step forward in this respect (Box 6). E-learning should continue to be developed, as planned by DCCD, and proposed on a voluntary basis. Joint training in partner countries should also be developed further. This would be particularly useful for local staff, who so far have few opportunities for training.

**Box 6. The Danida's Centre for Competence Development (DCCD): a tailor-made approach**

Danida's Centre for Competence Development was established in 2002 to ensure targeted, up-to-date and individualised competence development. Its target groups are MFA staff working on international development co-operation and Danida advisers. DCCD's core responsibilities include: i) pre-departure programmes for staff posted to the Danish missions in the form of individually-tailored programmes; ii) on-going competence development in the field of development co-operation in the form of seminars, courses, and e-learning programmes; and iii) establishment of IT-based professional networks within key priority sectors. The range of training covers thematic courses (e.g. public finance management, human rights, mainstreaming cross-cutting themes) and administration of Danish aid (e.g. aid management guidelines, aid effectiveness, monitoring indicators).

As a member of the Joint Donor Competence Development Network Denmark has been involved in joint training activities in partner countries in areas of common interest, such as sector wide approach and poverty reduction strategies. Denmark supports these initiatives as a way of creating dialogue and sharing the experience required for donor harmonisation and alignment. This initiative should be developed further because training in partner countries is, together with e-learning, an opportunity to provide more training opportunities for local staff.

***Moving from a knowledge-based to a learning organisation***

The South Group has set up an efficient knowledge management system which enables it to produce much valuable information. Danish embassies are responsible for ensuring that essential knowledge and information gathered through their activities and of interest to other departments and colleagues is shared rapidly and effectively, including through the regular updating of relevant information in the Programme and Project Data Base. In Copenhagen, the Technical Advisory Service has a key role in compiling and systematising experience and up-to-date knowledge on technical aspects of development co-operation. For instance, best practice papers are issued each year. All the information produced is publicly available on the Danida website (Box 7).

### Box 7. South News: an example of good practice

South News is a good example of Danida's intensive use of new information technology for sharing information inside the organisation. South News is an internal intranet and e-mail newsletter for all South Group employees in the MFA. It is published approximately every three weeks and each issue is read by 122 readers on average. The articles are written by the employees and have a general focus on development and current affairs in the South Group embassies and missions. It offers an informal but informative way of keeping in touch with other departments and areas.

The evaluation department is an independent body reporting directly to the Head of the South Group. Its core responsibilities include: i) planning, formulating and managing evaluations of Danish-financed development activities, including multilateral and NGO activities; ii) contributing to the learning process in the MFA by providing feedback to the management, the departments and representations on the relevance, impact and operational performance of development activities; and iii) increasing the accountability of Danish development co-operation by disseminating evaluation results to the Danish public, political decision-makers, MFA management and staff, the Danida Board, partner countries, other donors and other interested parties.

The department is also developing evaluation methods – such as the *Evaluation guidelines* (MFA, 2006h) published in November 2006 - and methods for disseminating evaluation results. It plays a leading role in international co-operation on evaluation with a strong involvement in international networks, in particular the DAC evaluation network. The department also contributes to the development of evaluation capacity in partner countries through bilateral and multilateral co-operation, and in doing so is an active advocate of joint evaluations with other donors and national authorities in partner countries.

Both knowledge management and evaluation are key assets for Danida. Denmark could make more use of them by being more systematic in the management of its various sources of information, including evaluation. At the same time, the South Group will need to think further about how to manage all the information it has access to, taking into account the limit in the capacity to absorb knowledge. It could review in this respect its knowledge management and dissemination policy. The Evaluation Department has a key role in the programme, but its impact is limited by its small staff number. The Evaluation Department could also have more regular meetings with political leadership and senior management. Based on its expertise, the Evaluation Department should carry more weight within the organisation, while maintaining its independence.

### Future considerations

- Denmark is invited to evaluate the MFA decentralisation exercise. In addition to the direct benefit Denmark will draw from this, it will provide useful input for the DAC aid management data base that will allow DAC members as well as new donors to improve on current practices.
- As part of decentralisation and in order to increase the effectiveness and complementarity of the programme at country level, embassies should play a greater role in monitoring and reporting on NGO-funded activities and humanitarian assistance programmes.

- Denmark needs to consider how to maintain the right level of human resources with the right skills mix and gender balance as far as possible, considering Danish service requirements. Considering the importance of locally-recruited staff in its decentralised programme and taking account of the local context, it should consider further career development for local staff.
- Denmark is encouraged to build on Danida's strong capacity in knowledge management and evaluation methodology to further develop and disseminate learning inside the organisation and outside it for the benefit of other DAC members.

## *Chapter 5*

### **Aid Effectiveness**

#### **Political commitment to aid effectiveness**

There is broad political support for the government's commitment to harmonisation and alignment, set out in *Commitment to Development* (MFA, 2006e), which continues to focus Danish aid on partners' needs.<sup>23</sup> There has been general public support, over many years, for Denmark's partnership approach, including the move in 1994 from a project to a sector approach. Although it is difficult to explain to the public that it is not possible to directly attribute sector results to Danish inputs, the government was able to explain the change in terms of ownership and support to the Poverty Reduction Strategy Process (PRSP). The present government commitments include integrating development assistance into the finance acts of partner countries, focusing aid on fewer and larger initiatives, increasing joint missions with other donors, formulating joint country strategies. The Foreign Policy Committee is supportive of the government's commitments, especially following a visit to Tanzania, which allowed politicians from across the parties to see the benefits (poverty reduction and efficiency) of a Joint Assistance Strategy.

While there are differing political views on some aid management approaches, which have implications for the aid effectiveness agenda, the government has reached an accommodation on each of these approaches: i) There are cost-effectiveness arguments for reducing the number of sectors in a programme country, as is the case in Ghana, given that Denmark cannot be involved in everything. The government has used these arguments in parliament when promoting harmonisation. At the same time, the minister wishes to maintain a balanced country programme portfolio for managerial reasons, though the Foreign Affairs Committee would be more radical in reducing the number of sectors. ii) Some NGOs favour setting a target of 15% of ODA for education. The minister has resisted this pressure for sector allocations, which would limit managerial flexibility at country level and be contrary to harmonisation and alignment commitments. For instance, in Mali, a new programme country, Denmark is not involved in education at all because the Mali government already had sufficient support from other donors. iii) The government would like to make greater use of general budget support in countries, but is conscious of the political risks (see below).

#### **Implementing the strategy throughout the Danish system**

The government has promoted harmonisation and alignment at several levels. At the international level, Denmark has participated actively in dialogue. It has been a leading advocate in the Nordic+ Joint Action Plan on Harmonisation (2003) and has been working on guidelines. Denmark has also taken a leading role on procurement and is pilot testing the approach in some countries. In the EU, Denmark is trying to promote harmonisation between different regions (African, Caribbean and Pacific Group of States, Asia and Latin America etc.) and to align European Development Fund rules,

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23. According to a research study, there has been a clear tendency for Denmark to focus on recipient needs rather than donor interests (UNU-WIDER, 2007).

but this is proving difficult. Denmark does not support EU harmonisation as an end in itself because of a belief in local ownership and a donor-wide approach within partner countries. With regard to multilateral assistance, Denmark actively promotes joint donor strategies in order to increase the effectiveness and efficiency of multilateral organisations (Chapter 3). At the national level, the government has been involved in various activities to disseminate the agreements on aid effectiveness and to communicate with politicians and the public. Within the MFA, the commitment to the Paris Declaration is well reflected in relevant guidelines and other documents, and related training is provided. For example, the *Guidelines on Programme Management 2006*, which update previous guidelines on sector programme support and introduce new areas, are drafted to take account of aid effectiveness (MFA, 2006g). There have also been several recent initiatives, pre-dating the Paris Declaration to promote harmonisation at different levels. In partner countries, the decentralisation process has been a major organisational support for aid effectiveness.

The overall approach to aid effectiveness is pragmatic and incremental, with in-built processes of reflection and stocktaking. The government's planning documents have progressively aimed to make Denmark's development assistance more effective. Thus the 2003 plan announced decentralisation; the 2004 plan stressed the importance of harmonisation and introduced the Nordic+ Joint Action Plan; and the 2005 plan introduced participation in joint assistance strategies (JAS) and increased contributions to general budget support. The 2006 plan announces further harmonisation measures, including integrating aid funds into the partner countries finance acts and participation in joint missions. This incremental approach reflects the realities of Denmark's own systems and those of its partners. In addition, in 2007 Denmark will lead a major effort along with other donors to evaluate aid effectiveness. The first results are expected in 2008 and the final report will be published by 2010.<sup>24</sup>

The choice and mix of aid modalities depends on in-depth analysis of the national policy framework for poverty reduction, the role of private and public sectors, and the quality of public sector management. Existing analyses are used where possible. Denmark can also adapt its modalities to a changing situation. For example, Denmark's country policy and approaches have been able to respond positively and quickly to Nepal's evolving situation.

Denmark has made efforts to reform its reporting systems in response to the aid effectiveness agenda, though there are still some areas to tackle. A donor's ability to have direct access to project information has been lost with the new modalities. Donors now have to rely on other information sources, including partner countries' own monitoring systems. For example, the Peer Review team learned that the minister would have liked information about HIV/AIDS and the NAO would have liked information on the use of different modalities and their results, neither of which was easily available. A task force for reporting on budget, commitment and disbursements on cross-cutting issues in Danish development assistance was established in 2006. The anti-corruption plan commits embassies to report on Danish development assistance funds on a quarterly basis.

Like many other donors, Denmark faces challenges in restructuring its staffing in the light of the aid effectiveness agenda, not just in numbers but also in terms of background and skills (Chapter 4). To be involved in sector discussions, embassy staff need to understand financial management systems and institutional development as well as specific sectoral issues. In the case of Nepal, Denmark was well equipped to deliver the aid programme in a difficult environment; but in Ghana, further staffing adjustments are needed to support the programme adequately and facilitate effective alignment. These

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24. This evaluation study is being conducted jointly by the DAC Evaluation Network and a number of partner countries. Denmark is funding a small secretariat which is hosted at the Danish Institute for International Studies. The retiring Head of Evaluation has moved to this institute.

adjustments are difficult to manage especially when sector specialists resist the process of changing staff profiles.

The MFA is not able to track the impact of the aid effectiveness agenda on transaction costs systematically across its programme countries but does obtain a general impression from embassy reports. While harmonisation and alignment should reduce transactions costs over time, especially for the partner country, embassies have to absorb a number of costs in the short term. There is a suggestion that many of these costs arise from the transition from a project to a sector-based approach. Denmark would like to lead in some sectors and take a step back in others and has taken on the management of some other donors' operations, such as in Ghana and Nepal. However, there is scope for Denmark to delegate its own operations to others, through, for example, silent partnerships.

### **Detailed Review of Progress at Country Level**

Denmark has made efforts to promote aid effectiveness at the programme country level but particular challenges remain. Decentralisation has been a positive step. Aid funds are committed for five-year periods, which should increase predictability for recipients. As noted above, there is a clear trend of reducing the number of programmes and components. On the other hand, according to the 2006 NAO report on *Harmonisation and Alignment in Danish Bilateral Assistance* (NAO, 2006b) and some internal reporting, there has been a lack of consistency in the approach across all countries. In particular, Danish efforts at aid effectiveness have not been systematically integrated into country strategies. The Annual Performance Report 2005 (MFA, 2006b) highlights the challenge involved in replacing separate Danish funding with joint arrangements as well as in adjusting the mix of skills in embassies to address harmonisation requirements. Denmark has now developed new guidelines for country strategy processes so that both bilateral and joint strategies can be dealt with, and local embassies have room for manoeuvre in local discussions. The following sections discuss country level performance against the different elements of the aid effectiveness agenda.

#### ***Ownership***

There is ample evidence that Denmark supports the principle of ownership and is putting the principle into practice in the majority of programme areas, with country strategies based on the partner countries' poverty reduction strategies. The principle of ownership is also reflected in the country strategy process, which is intended to help align Danish aid with partner countries' own programme.

However, the process involved may undermine this intention. Denmark's Country Strategy Papers (CSPs) are national strategy documents that set out long-term plans and form the basis for allocating funds to the country programmes; developed in collaboration with the partner countries, they ensure coherence of development policies with partner countries' objectives. The CSP provides a basis for political debate in the donor country about priorities in the partner country, and in Denmark the Foreign Affairs Committee discusses individual CSPs and has the right to ask the minister to comment on them. These documents are finally approved by the donor headquarters and become public documents. In Denmark, the CSPs are then monitored by annual assessments and performance reviews. But an EU study<sup>25</sup> has questioned whether this type of CSP process contributes to co-ordination and complementarity; Denmark's CSP-process sets out accountability relations with the MFA and parliament rather than to partner countries.

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25. Copenhagen Development Consulting 2006. *Evaluating Co-ordination and Complementarity of Country Strategy Papers with National Development Priorities*. Evaluation Services of the European Union. Studies in European Development Co-operation Evaluation No. 3. Transaction Publishers.

The CSP is perceptibly evolving into a form that might be better adapted to the challenging requirements of alignment. Two aspects stand out: i) Denmark is engaging with other donors in joint assistance strategies (JASs) in three programme countries (Tanzania, Uganda, and Zambia). Participation in JAS was mandated by the minister after consultation with the Foreign Affairs Committee. Participation affects Denmark's CSP. Denmark will focus on fewer sectors, increase the use of basket funding, and use generalised forms of technical assistance. There are likely to be further implications for Denmark's CSP as the JAS process evolves; ii) In Ghana, Denmark is moving towards a more flexible CSP, which will strengthen co-ordination and complementarity. In particular, the draft CSP underwent extensive discussion with the Government of Ghana to agree sector allocations. More generally, the revised Danida guidelines for country strategy processes have introduced a more flexible approach allowing full alignment and harmonisation with country-led processes. Denmark should pursue this evolution. In doing so, it will be in line with the EU study (see footnote 24), which recommended that Denmark treat CSPs as flexible working documents – as a continuous process - rather than as public accounts for audit purposes.

### *Alignment*

Denmark has advocated a sector approach for over a decade and its core aid modality is Sector Programme Support (SPS). In each programme country, there are provisions for SPS in 2-4 sectors, based on national sector strategies and supported by a joint sector wide approach with other donors, for maximum alignment and harmonisation. Although 13 out of 16 embassies regard harmonisation efforts as satisfactory or very satisfactory (MFA, 2006b), there is room for progress, since Denmark still retains a proportion of bilateral projects in its sector approach, realigning bilateral projects with sector objectives.

This explains why, according to the *2006 Survey on Monitoring the Paris Declaration*, just 28% of Denmark's activities in Ghana make use of common arrangements. More generally, the results of the 2006 survey shows that while Denmark is an effective donor in a number of areas, it is underperforming on certain indicators, particularly those on programme-based approaches and use of country public financial management systems (Box 8). According to the Performance Report 2005 (MFA, 2006b), there were still widespread separate funding arrangements and parallel implementation structures at that time. Denmark is aware that achieving progress on the target to reduce the number of PIUs is a particular challenge. According to the MFA, Denmark intends to make more use of common arrangements and pooled budgets, as was seen in Ghana and Nepal.

#### **Box 8. Aid effectiveness indicators for Denmark, with special reference to Ghana**

The *2006 Survey on Monitoring the Paris Declaration*, which will be the baseline for measuring donors' progress, paints the following picture of Denmark's efforts on aid effectiveness. Denmark is performing better than the average on untied aid (85%), the use of country procurement systems (45%), the use of common procedures e.g. programme-based approaches (60%), joint missions (33%) and joint country analysis (80%). Where Denmark was below average was in aid flows in budget (45%), co-ordinated support to capacity (48%), use of countries financial management systems (29%) and predictable aid (54%). There are also 3.8 parallel project implementation units per country.

The survey's country chapters show that Denmark's approach varies in different partner countries. For example, in Ghana, 65% of Danish aid for the government sector was on budget, similar to the donor average (68%). Denmark used the government's financial reporting and auditing systems. While only 28% of Denmark's aid was programme-based, Denmark participates in some pooled funding in sector approaches and contributes to the Multi-Donor Budget Support, with a level raised to just over 10% of its total commitments. With regard to providing more predictable aid, Denmark intends to disburse 100% of the overall commitments by retrospectively adjusting sector allocations to reflect capacity to disburse. Sixty-three percent of Denmark's missions in Ghana are now co-ordinated with other donors.

Denmark's application of strict standards, particularly in financial management, should translate into capacity building and should avoid working against the alignment and harmonisation principles. This explains why Denmark does not in all cases rely on partner countries' public financial management systems. For instance, in Nepal, Denmark has put in place arrangements in its different programmes to ensure funds are adequately spent (Annex E). Denmark should consider how to address both the need to demonstrate the efficient use of aid in order to reinforce public and political support and the need to remain in line with its commitment to aid effectiveness.

In particular, the government has adopted a risk management approach to implementing general budget support (GBS). After extensive discussion with other political parties, the government was able to agree an approach and established 10 criteria on which to assess a decision to provide GBS in a particular country.<sup>26</sup> The criteria were defined by the Danish government in four key areas (governance, poverty reduction, public financial management, and partnership). In particular, MPs called for sound financial management systems so that there is general accountability for Danish tax payers. The first assessments were made by the country ambassadors, supported by the Technical Advisory Service, in the course of the normal appraisal process. Six of the 16 programme countries now receive GBS. In certain countries, such as Uganda, there could be no political agreement on the provision of GBS (Uganda had been involved in regional conflict, so there was a perceived risk of GBS contributing to funding the conflict). In other countries, there may be risks of corruption and fungibility and other fiduciary risks but these may go alongside visible efforts at governance and democratic reforms. In such countries, Danish MPs were concerned to ensure an investment in good governance, in effect promoting control by the country's own parliament over the use of funds. For instance, in 2006 in Tanzania, Denmark pushed to have the adoption of the national anti-corruption legislation as a common performance indicator for releasing variable tranche of GBS. The government also stated that funding for GBS would not exceed 25% of the country programme, which reduces exposure to risk and promotes synergy between different instruments. From a professional perspective, the review team failed to understand the logic behind a general 25% ceiling on GBS.

Technical assistance can be provided either through financial assistance to the partner country or through tied assistance with Denmark. The choice depends on agreement with the recipient, based on a needs assessment and the availability of technical expertise and procurement capacity. In Ghana, there is relatively little tied Danish Technical Assistance (TA), and this is declining further. Denmark's approach to capacity development is becoming more structured, and there are lessons for other donors from this approach (Chapter 6).

Commitment-based budgeting should contribute to donor-predictability but, like the CSP, may also pose certain constraints. Commitment-based budgeting started in 2006 so it is too early to make definitive judgements about its effects on alignment. But early indications are that it does contribute to the predictability of aid for recipient countries. In Ghana, Denmark expects to have 80% of all Danish assistance "on-budget." These allocations, while being clear commitments, allow for flexible disbursements to make allowance for changes of pace in different sectors and implementing authorities. However, while the Technical Memorandum states that there is still flexibility to change commitments in reaction to crises, the new commitment-based approach may restrict this flexibility as it may be more difficult to reallocate funds when new issues arise. In Nepal, there had been a welcome flexible response to a new situation before the commitment-based budgeting system was instituted. The risk is that, in future, new political initiatives such as those required in Nepal could not be taken on and new political realities could not be easily responded to. Taking into account the balance needed

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26. MPs visited some countries and this helped them understand the potential benefits of GBS and how it can signal belief in a country's capability.

between predictability and flexibility, some consideration of these issues should be desirable, especially since the *2006 survey on monitoring the Paris Declaration* shows that Denmark is underperforming on the aid predictability indicator (Box 8).

With respect to humanitarian assistance, although there is a specific budget line for this, decisions on special arrangements to respond to humanitarian crises beyond this budget are taken by the Finance Committee of parliament.

### ***Harmonisation***

Denmark is actively involved in donor coordination mechanisms. In both Ghana and Nepal, Denmark is seen by donors as a strong and constructive player in promoting harmonisation (Annexes D and E). Its increased support to the JAS in a number of partner countries is positive in this regard.

Denmark aims to reduce the number of bilateral missions and rely more on joint missions, though it does not expect to abandon bilateral missions altogether. Every second year, there are high level consultations to discuss matters of political importance in Denmark, such as anti-corruption strategies or political relations between Denmark and Ghana. According to Denmark, these were particularly important while it was a member of the Security Council, and therefore canvassing opinion on a range of political matters. Given that Denmark's role on the Security Council has come to an end, and given that bilateral projects are being phased out in favour of joint approaches, Denmark could consider reducing the high-level bilateral consultations in the future. They could focus on overall political, foreign policy relations, subject to recipient countries expressing a similar preference.

### ***Untying aid***

Substantial progress has been made on untying aid since the last Peer Review. As of November 2006, Denmark has untied all aid with the exception of the Mixed Credit Programme. All food aid will be untied from 2008 onwards. Thus, Denmark has gone beyond the DAC recommendation for aid untying. Furthermore, since 2004 all procurement under the grant financed development programme, including food aid, has been untied with regard to other EU and European Economic Area countries. There have also been several changes to procurement policy in line with the Paris declaration on aid effectiveness. Where a partner country has satisfactory procurement capacity, Danish development assistance uses recipient country systems in accordance with the Joint Procurement Policy. For the private sector programme, there is now worldwide procurement. To facilitate this arrangement, Denmark improved its advertisements and access to its website, which has increased the number of non-Danish applicants and tenders. This has resulted in more contracts with non-Danish companies. Of the 20 contracts of over DKK 200 million, 25% were won by non-Danish companies. This untying on procurement has been global since November 2006.

The Mixed Credit Programme with an annual budget of DKK 300 million (which equals EUR 40 million) will remain tied to companies registered in Denmark, although there is no requirement as to the origins of goods and services.<sup>27</sup> This programme, which presently constitutes 3% of the Danish aid programme, also operates in a number of LDCs. The level of commitments to LDCs has increased over the past two years, as a consequence of increased focus on Danida's programme countries. They accounted for 41% of the Mixed Credit Programme and for 71% in 2006.

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27. The Business to Business (B2B) Programme which accounts for 1.5% of the Danish programme, is also tied to Danish companies.

The tied Mixed Credit Programme is not in accordance with the 2001 DAC recommendation on untying ODA to the LDCs (OECD, 2001a). Denmark considers that this exception to the recommendation is covered by the remarks made at the time of the adoption of the OECD recommendation on aid untying, which stated that Denmark's possible underperformance in applying the recommendation is to be assessed against its overall performance on the effort sharing matrix. Denmark scores highly on both indicators in the matrix.

The question of untying the Mixed Credit Programme is debated in Denmark. While many stakeholders justify Denmark's position, an evaluation of this programme in 2002 (MFA, 2002b) recommended that Denmark adopt the untied window for Mixed Credits. In response, the Finance Act of 2002 provided a budget allocation of DKK 50 million for an untied window of mixed credits in programme countries (and South Africa) to facilitate sector programmes, though the bulk of the programme remained tied. Some politicians believe that aid tying is not necessary – large Danish companies can win global competitions and even small companies are increasingly competing in a global market. The general public accept the principle of aid untying as it promotes ownership. The Peer Review team appreciates that development results are achieved by the use of the tied Mixed Credit Programme, but it encourages Denmark to analyse whether these results, as well as the public support benefits, could be achieved by other instruments. This could allow Denmark to reconsider its exception in light of the Paris Declaration on aid effectiveness and the improved overall performance of DAC members with respect to effort sharing, as suggested by the 2007 OECD/DAC High-Level Meeting.

### *Managing for results*

The MFA has worked on establishing robust reporting systems in the embassies as part of its results-management and quality assurance procedures (Chapter 4). These systems review progress in the sectors and the country programme as a whole. In gathering information on results, Denmark is committed to the Marrakech principles of managing for development results and to making use of partner country reporting systems where possible. In an assessment of these reporting systems, the NAO expects the MFA to continue developing them so as to harmonise reporting from different embassies, and to do more about reporting on the trends in funding to the different modalities (Box 9).

#### **Box 9. Overall assessment by Denmark's National Audit Office**

According to an overall assessment of harmonisation and alignment by Denmark's National Audit Office Report (NAO, 2006b), while the MFA has planned and followed up on bilateral assistance to programme countries in accordance with international declarations, further efforts are needed in specific areas. The MFA has participated actively in international work on harmonisation and alignment. There have been improvements in the reporting of sector programmes and for quality assurance, though more needs to be done to standardise embassy reporting. The MFA has not yet worked out how to delegate authority to other donors and to become a silent partner, though Denmark has taken on other donors. The NAO report recommends further prioritisation in programme countries. The MFA could not provide precise figures on aid modalities, especially general budget support, because the DAC reporting system does not capture these. There remain differences in harmonisation and alignment between sectors in the same countries. The NAO expected that the MFA would adjust the guidelines for evaluation, and this was done in 2006.

### *Mutual accountability*

The concept of mutual accountability is only just emerging as Denmark engages in joint activities at the country level. In Tanzania, where Denmark is engaged in establishing a Joint Assistance Strategy, there are systems of mutual accountability in place. In Nepal, Denmark clearly sees that its

activities should contribute to the Nepali people and that Denmark should continue to be seen as trustworthy by all parties.

The government is concerned to engage different constituencies within the Danish public, including the business community and civil society organisations, in development co-operation. The move towards sector programmes and budget support poses a challenge for maintaining the support of these various constituencies. There is less ability to document specifically *Danish* impacts on poverty reduction at country level and a need to explain the beneficial outcomes of complex development activities supported by Denmark. The MFA uses the MDGs to strengthen public support for development assistance as they provide a clear indication of the results to be achieved and a good basis for monitoring progress. The Results Contracts (Chapter 4) link Danish work at the country level with the MDGs for the particular country. At the same time, the Danish public is concerned about corruption. The anti-corruption plan, established in 2004, is the MFA's response to this concern of the Danish public. In partner countries, many country-level activities are associated with this plan, including high-level consultations.

### **Future considerations**

Denmark has made considerable progress towards implementing the Paris Agenda on aid effectiveness. In particular, decentralisation of authority to embassies has greatly facilitated harmonisation and alignment. This progress now needs to be consolidated and implemented systematically across partner countries. As well as implementing the NAO recommendations for further prioritisation in countries; implementing delegated partnership with other donors; and improved financial reporting on aid modalities, further consideration could be given to the following areas:

- Looking at aid effectiveness in performance reviews and evaluation, as Denmark is considering, would be a useful way to make the aid effectiveness approach across embassies more systematic
- Cross-cutting issues such as gender equality and environmental sustainability remain important development objectives and there is a need to consider how to promote them while maintaining the ownership principle. Denmark is encouraged to disseminate widely the lessons from the April 2007 seminar in Ireland on this challenge.
- In the light of aid effectiveness, Denmark is invited to pursue the trend towards a reinforced country strategy process that supports JAS and that is conducive to mutual accountability.
- There is still evidence of Project Implementation Units, and Denmark needs to seek other solutions to capacity constraints that are in keeping with the requirements of alignment and ownership.
- Bilateral missions at high level could be further reduced in number. They could focus on overall political, foreign policy relations, subject to recipient countries expressing a similar preference.
- Denmark should consider how to create incentives for aid effectiveness, both for staff and for budgeting. The recruitment of the next generation of staff will provide an opportunity.

- Denmark should review experience with its new commitment-based budgeting in order to ensure it remains flexible enough to reallocate funds when new priorities arise, and is consistent with the need to focus on results rather than inputs.
- Denmark is invited to review the ten criteria for general budget support with reference to accountability relations, particularly in the light of the principle of mutual accountability.
- Denmark is invited to consider other mechanisms or instruments for getting the development as well as the public support benefits achieved through its tied Mixed Credits programme. This would allow Denmark to reconsider its exception to aid untying in light of the Paris Declaration on aid effectiveness and the improved overall performance of DAC members' with respect to effort sharing.

## *Chapter 6*

### Special Issues

#### Capacity development

##### *An innovative donor at the forefront of policy guidance for capacity development*

Long before the Paris Declaration put an emphasis on capacity development, Denmark has considered this dimension as a key element in its development assistance programme, and its strategies and guidelines have emphasised capacity development support. As its aid moved from a project to a programmatic approach, the focus on capacity development support has moved from a focus on individuals or individual organisations to developing institutional or organisational capacity at sector level, or at government level through support to various reform endeavours. At the same time, given the lack of a comprehensive conceptual framework to analyse capacity development, including methodologies to assess the impact of capacity development support, Denmark decided to embark on a large development and learning exercise in this field in 2002 (Box 10).

#### **Box 10. Denmark's incremental approach to analysing capacity development**

A step-by-step approach has been taken to test a methodology for capacity development impact evaluation. Each step produced a separate working paper, available on the Danida website. The steps were as follows:

- I. 2002: development of an analytical framework to evaluate the impact of Danish capacity development support to public sector organisations in the context of sector programme support. (MFA, 2002c)
- II. 2003: establishment of an overview of the existing Danish support to capacity building. This was the first assessment of Danish support to capacity development. The study also tested the relevance of the impact evaluation approach suggested in the analytical framework. It covered 15 sector programme supports and three interventions funded under the environment, peace and stability mechanism (MFA, 2003b).
- III. 2003: development of a draft methodology for evaluating capacity development; this suggests 15 steps to assess capacity development support (MFA, 2003c).
- IV. 2004/05: publication of a general report describing a pragmatic approach to donor support for public sector capacity development (MFA, 2004c). This report was followed in 2005 by an introduction to a result-oriented approach to capacity change (MFA, 2005c) focusing on the potential constraints and the realistic options for changing and enhancing organisations' capacity.
- V. 2005: field-testing of the proposed methodology in Ghana, which led to recommendations for adjustments to the analytical framework and the methodology (MFA, 2005d).
- VI. 2006: publication of a guidance note on Danish support for capacity development was issued by the Technical Advisory Services (MFA, 2006i). It aims to translate the theory into implementation in the field.

Denmark's objective was to contribute to the insight of Danida, other donors and development partners about capacity development support and its outcome, and ultimately to prepare a set of guidelines for capacity development support. In doing so, it has developed a Capacity Development Outcome Evaluation Methodology, which is a comprehensive framework for analysing and evaluating both the internal and external aspects of capacity development and capacity development support in organisations (Box 11).

This exercise was engaged jointly with other Nordic agencies. Overcoming difficulties in the joint exercise, Denmark developed its own guidelines, but continues to work with other donors to develop common guidelines and implement joint capacity assessments, in line with the commitments of the Paris Declaration. Danish efforts to progress its agenda on capacity development have been beneficial for other donors. Denmark is invited to continue to broaden the approach to other donors in line with the DAC good practice paper (OECD, 2006c), and to work with them to address the challenge of translating the approach to capacity development into the programmes, with a strong link with governance and institutional support. In doing so, it will need to ensure the strong involvement of partner countries.

#### **Box 11. A methodology to support capacity development**

The framework and the methodology developed by Danida both emphasise the importance of external and internal factors, and adopt a broad institutional approach to the analysis of capacity and capacity development in organisations. The analytical framework is based on four key propositions: i) organisations are seen as open systems with an "inside" and an "outside"; ii) organisational analysis should include both formal and informal aspects; iii) capacity development support can be classified as either internal ("push strategies") or external ("pull-strategies"), and either predominantly functional or predominantly political; and iv) recipient commitment and capacity to change is essential for success of capacity development support. The analytical framework therefore suggested that capacity development support can be given in four major ways, depending of its focus (factors internal or external to the organisation in question) and on its approach (capacity problems regarded as functionally or politically rooted; see Table 2).

The framework then identifies key factors for successful capacity development support: competitive pressure and performance demands on the organisation; the possible gaps between the formal and the informal organisation; the actual incentive structures functioning in the organization; the scope of required change; the commitment of stakeholders to the change process; the availability of sufficient recipient capacity to manage and lead capacity development; the balance between pull and push elements in the support for CD; the options for producing some quick, visible results to deepen commitments; and the timing and process of intervention and support.

#### ***Supporting capacity development in practice***

The 2003 review of the existing Danish support to capacity building (MFA, 2003b) found that while capacity development was referred to as a key objective in Danish public sector support programmes, the concept of capacity development and the way to operationalise it remained unclear. In particular: i) Danish interventions had generally weak analytical underpinnings; ii) the capacity development support was strongly focused on the technical, functional aspects of organisations (skills development, general management training, structures, procedures and mandates) while there was minor attention to the external context and political issues; iii) targets, outputs and indicators were generally not specified and only to a limited degree linked to specified output/outcome changes of the recipient organisation; iv) consensus with partners on how to evaluate the results of the capacity development support was rarely established prior to implementation.

Denmark is determined that capacity development should inform all programmes. In order to help translate its theoretical approach into implementation in the field, Danida drew on all the lessons learned through the above process to issue a guidance note (MFA, 2006i) Its objective is to provide staff at embassies and headquarters with a simple assessment tool for the planning and preparation of capacity development interventions in programmes and projects supported by Denmark.

The note insists on the need to conduct a thorough institutional capacity analysis before preparing a new programme. It proposes a methodology with a step-by-step approach, corresponding to the identification, formulation and appraisal phases of a project. The focus should be on individual organisations that are part of Danish-supported programmes, with a specific assessment for each organisation supported. The impact of capacity development support should be measured against the outputs delivered by each organisation, and benchmarks and targets should be designed for changes in these outputs. Both internal and external factors will be considered when analysing organisational change. In addition, both “political” factors, such as commitment to change processes, and “functional-rational” factors, such as legal mandates, must be considered. A framework for analysing factors was designed as below (Table 2).

**Table 2. Four options for organisational change**

	<b>Functional-rational dimension</b>	<b>Political dimension</b>
<b>Internal dimension</b>	<p><i>Getting the job done</i>: focuses on changes in task-and-work system within the organisation</p> <p>Most donor interventions have been in this category, which includes skill training, organisational restructuring, human resource development, etc</p>	<p><i>Addressing power relations</i>: focuses on internal changes in power and authority distribution and pursuit of different interests</p> <p>Interventions include hiring and promotions based on merit, building international coalitions for change, introducing performance-based payments, actively discouraging rent-seeking</p>
<b>External dimension</b>	<p><i>Creating an “enabling environment”</i>: focuses on how changes in external factors and incentives will affect the task-and-work system dimension of organisational capacity</p> <p>May include protecting certain functions (e.g. internal revenue, customs, central banks) from political influence and poor working conditions, ensuring external audits, focusing on outputs</p>	<p><i>Forcing change in internal power relations</i>: focuses on how changes in external factors and incentives will affect the dimension of power and authority distribution, conflict and pursuit of different interests in the organisation</p> <p>Examples include the strengthening of civil society organisations or of political accountability, building external coalitions for change and strengthening the media’s watchdog role</p>

Source: MFA (2006i), *Guidance note on Danish support for Capacity development*, Ministry of Foreign Affairs, Copenhagen.

In 2006, an evaluation was carried out of the current status of capacity development of six key supported organisations in Bhutan. It will feed into the planning of the next phase of Danish support to Bhutan, as is recommended by the guidance note. It is also the first step in the evaluation of the Bhutan country programme.

### ***Challenges ahead***

#### *Adapting instruments to support capacity development*

In addition to developing a new analytical approach to incorporate capacity development into the programmes, Denmark needs to make sure that its modalities effectively support capacity development. The 2003 review (MFA, 2003b) found that long-term international technical assistance

featured as the most common input to capacity development in public sector support interventions, along with training courses and workshops, and provision of transport and office equipment.

Technical co-operation has decreased by 25% over the last five years but has now stabilised. After a high point of 271 equivalent work-years in 2001, the number of Danida advisers decreased to 208 in 2005. Danida does not have a pool of technical advisers; instead they are recruited for a project, each programme making the decision.<sup>28</sup> Long-term advisers are process-oriented and focus on capacity development and institution-building as the responsibility for planning and monitoring the projects is gradually being transferred to the partner countries. Short-term advisers can be hired to work on a specific task relating to the preparation, implementation or evaluation of an activity.

There is scope to improve the way technical assistance is used. This is particularly the case since concern over financial control sometimes leads Denmark to abstain from joint technical assistance arrangements and to keep part of its technical assistance partially independent from the government. For instance, in the Nepal education sector, one out of the three technical assistants is still not fully integrated in the ministry, and functions as a small separate office dedicated to the management of the pooled fund. (Annex E). In Ghana, there has been a reduction in Danish technical assistance and co-ordination with other donors has increased, but there is still room for improvement, especially regarding tied technical support in the Business to Business Programme (B2B) and reliance (albeit reportedly temporary) on a project implementation unit for private sector development.

Denmark is revising its policy paper on technical assistance in order to increase its commitment to capacity development. The paper will include operational guidance for staff who are designing and implementing technical assistance. It will build on lessons learnt from a joint donor evaluation of technical assistance in Mozambique, Vietnam and the Solomon Islands; and on a synthesis evaluation of all evaluations of technical assistance in 2005/06 prepared by the Evaluation Department.

Sustaining development through training is the primary goal of the Danida Fellowship Centre. Its objective is to organise courses and training for nationals and private institutions involved in Danida-supported interventions. In 2005, 740 fellows from Asia, Africa and Central and South America were trained in Denmark. The centre is developing tailored approach so as to be more demand-driven and responsive to needs. It is also considering how to link training for counterparts with organisational change – such as encouraging a promotion system based on merit. It has developed specific training on organisational change management, which is a crucial area for capacity development, as illustrated in Table 2.

#### *Linking capacity development with governance support*

One challenge for Denmark is to link sector support to capacity development with support to governance, which has so far been concentrated at the organisational level. Thus, Denmark needs to consider what it is doing at the institutional level when preparing a sector programme. This would ensure close linkages and interactions between the governance programme and activities stimulating organisational capacity change, including, for instance, identifying the key roles of national actors or introducing performance-based incentives. This points to the need for better analysis of the “political economy” as part of the political dimension in the Danish analytical framework (Table 2). It will be important that the new governance strategy being prepared clearly establishes the link between these different approaches.

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28. In addition, every year Danida recruits a small number of bilateral junior advisers for sector programmes in programme countries. The junior programme is expected to enhance the recruitment basis in the long run.

Depending on a country's context, the focus of Danish support to capacity development has been mainly on building government capacity (Ghana) or strengthening local civil society (Nepal). There is a need to ensure an appropriate balance between these two levels of support in each context, based on an analysis of specific situations.

### **Denmark's support to private sector development in partner countries**

The current government is giving increased attention to private sector development as a way of integrating poor countries into the world economy so as to reap economic and social benefits. *Globalisation – Progress through Partnership* promotes the integration of poor countries, especially in Africa, into the world economy. In the last few years, Denmark has drastically shifted its aid programme from a focus on how the Danish business community participates in Danish development assistance to building an environment conducive to private sector development that benefits and provides opportunities for poor men and women. This new approach is in line with the recent DAC policy guidance on promoting pro-poor growth.

#### ***A new approach for supporting the private sector development***

In 2004, Danida evaluated its support for private sector development; this was critical of the previous approach.<sup>29</sup> The evaluation specifically noted that it was difficult to track results. There was a lack of attention to the macro and meso levels, which were likely to have most impact on poverty reduction by creating a business-friendly environment. The projects focused on the transfer of technology but not enough on the transfer of competencies or capacity building. The evaluation also noted that Denmark's promotion of the private sector provided assistance tied to Danish firms and could lead to a supply-led programme. The programme was also seen as controversial by the Danida Board, which wanted to ensure that it was demand-driven by the developing country partners.

These various criticisms sparked debate within the MFA, culminating with a new strategy which aims to have greater impact on poverty reduction. Launched in 2005, *Business, Growth and Development – action programme for Danish support to private sector development in developing countries* makes poverty reduction the overriding goal. The new programme intends to combine the different Danish business instruments more effectively and to mainstream support for private sector development within the Danish programme. It aims to be demand-driven and gives much greater attention to the promotion of a business-friendly environment, with a special emphasis on the labour dimension. It is now possible for Danida to work at macro, meso and micro levels, and to create synergies between these levels. Such complementary approaches are implemented in Ghana (Annex D). Other improvements include the streamlining of programmes to be more effective and the re-orientation of some programmes with, in particular, the B2B Programme replacing the former Private Sector Development Programme.

Danida now makes use of several instruments in its programme countries:

- i. The *Business Sector Development Programme* which is an engagement, along with other donors, in sector approaches to private sector development including regulatory reforms, as in Kenya.

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29. Ministry of Foreign Affairs, Danida (2004/6) *Meta-Evaluation: Private and Business Sector Development Interventions*, Danida, MFA, Copenhagen.

- ii. The *Mixed Credits Programme*, which ensures that Danish deliveries of capital equipment and services create jobs and strengthen the business community's framework conditions and infrastructure.<sup>30</sup>
- iii. The *B2B Programme*, which promotes local business development through long-term partnerships between Danish and local companies in programme countries and South Africa, with the objective of providing access to Danish know-how and technology.
- iv. *Public Private Partnerships (PPPs)*, which aim to enhance working and living conditions in developing countries by establishing partnerships between Danish and local companies.
- v. *Technical assistance*, in particular trade-related TA.

In addition, a stronger focus is placed on developing training opportunities, including vocational education and fellowship programmes. Denmark also uses several indirect means to support private sector development: debt relief, multilateral programmes, Danish Import Promotion Office, Export Credit Fund, the Industrialisation Fund for Developing Countries, and the Anti-Corruption Action Plan.

As mentioned above, the main partners in the PPPs, Mixed Credit and B2B Programmes are established Danish and local companies, but various other stakeholders participate as consultants, such as the Danish Federation of Small and Medium Industries. Danish companies are favoured in these programmes for reasons of administrative efficiency and risk management. Their involvement is also seen as a good way of promoting Denmark's model of private sector development, which emphasises wealth and job creation along with corporate social responsibility and environmental sustainability. According to a study of Danish firms investing in developing countries, 25 out of 34 firms surveyed have corporate social responsibility policies, with working conditions and environment as the two main focal concerns.<sup>31</sup>

### ***Improvements and challenges in the new strategy***

The new strategy for private sector development has introduced improvements to the appraisal process. New *Company Guidelines: Support facilities in the B2B programme* were prepared by Danida in 2006. They set out requirements for increased employment opportunities for women, improvements in the working environment (health and safety), workers' rights, and promotion of corporate social responsibility. The federations and embassy staff help companies prepare projects to ensure compliance with the guidelines. Danish embassies are responsible for the appraisal process and may need further support from headquarters in this respect.

There is greater attention to results in the private sector development activities than in the past but the means to achieve the results are not clear. The B2B Programme and Business Sector Programme have an array of targets to monitor. In B2B there are programme indicators, measures of corporate social responsibility and environmental impact. In Ghana,<sup>32</sup> some targets include outcomes though most are programme inputs or outputs, and the introduction of targets and indicators is still a learning process. Danish companies are expected to transfer competences along with technology, but

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30. The Mixed Credit Programme was evaluated in 2002 (MFA, 2002b) and a new programme launched in 2003.

31. Christian Friis Bach *Fighting Hunger with Investments* Presentation at conference on Social Responsibility, Poverty and Hunger held at Danish Church Aid, Copenhagen 2006.

32. Danida, 2004, *Ghana-Denmark Partnership: Strategy for Development Co-operation 2004-2008*, Ministry of Foreign Affairs, Copenhagen.

establishing the chain and transmission channels through which project activities are expected to lead to economic growth and poverty reduction would help improve the effectiveness of activities. It is also not clear that the programme gives attention to identifying the change agents in the local economy that would drive reform processes.

Greater consideration should be given to the balance between the direct engagement with companies and the support to build an environment conducive to private sector development which benefits the poor. Taken together, Danish instruments deal with both direct technology transfer between companies and the institutions and policies that affect market outcomes. The business sector development programme addresses the need to create a business-friendly environment, working alongside other partners. Multilateral approaches also indirectly support the creation of business-friendly outcomes but there appear to be no specific mechanisms to link support for these multilateral programmes with the bilateral programmes. Justification of the bilateral project support component rests primarily on the synergy with the business sector development programme and the added value brought by the promotion of corporate social responsibility and training. However, the main benefits and greatest impact will be achieved from the broader programmes of business sector support.

Danida believes that Denmark's small and medium enterprises and companies of a similar size in partner countries gain mutual benefits from the Mixed Credit and B2B Programmes. The existing B2B projects and other private sector activities bring useful knowledge into the sector discussions and have good effects on capacity building and learning-by-doing. However, such instruments face challenges in promoting economic growth and poverty reduction, innovation, and sustainability. In a country like Ghana, there are relatively few projects overall under the B2B Programme and, given the size of the enterprises, the overall impact on employment generation, economic growth and poverty reduction is questionable. The impact of these activities must consequently rest on their demonstration effect. The B2B Programme tends to focus on established businesses rather than the more risky start-ups, so the programme does not appear to be aiming to promote innovation. Sustainability of the partnership arrangements and reliance on projects involving Danish companies are also questionable, a point raised in Ghana (Annex D). Only a fraction of partnerships are joint ventures and these do not last long. Danish academics have also raised concerns about the impact of Public-Private Partnerships and the need to develop more rigorous methodologies for assessing their impact on service delivery, poverty reduction and political participation.<sup>33</sup> Recent DAC guidance recommends that if providing direct support to firms, donors should ensure that they avoid distorting markets and promote sustainable outcomes by focusing on the causes of market failures.

At the policy level, Denmark could build further on its *Business, Growth and Development Action Plan* and its approach to private sector development as a cross-cutting issue to encourage its developing country partners to integrate private sector development into their national development frameworks. At the programme level, Danida could focus more of its support on working to increase poor people's access to financial, labour, land and other markets, in connection with its support to other programmes. Danida's support could also give high priority to addressing constraints faced by the domestic private sector, both formal and informal, and to increasing their capacity to respond to new opportunities and expand business relationships with foreign investors. For instance, in Nepal, Denmark could consider how it could extend its engagement in the energy sector to more directly supporting productive activities. It is also invited to consider how to reach the most marginalised and poorest populations through its private sector-oriented approach. An evaluation of the Danish approach to private sector development is currently being prepared and will provide input on how private sector issues can be dealt with as a cross-cutting issue in the programme. This evaluation could

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33. Workshop of the Copenhagen Business School in 2006 at <http://www.unrisd.org>.

also be useful in assessing the impact of its approach in creating a conducive environment to private sector development and exploring ways to strengthen it.

### **Future considerations**

- Denmark is invited to continue to share with other donors its approach and findings on capacity development and further disseminate good practice.
- The MFA is invited to strengthen the focus of its approach to private sector development on promoting enabling environments for “pro-poor growth” and to consider how to enhance the synergy between multilateral and bilateral approaches.
- The Technical Advisory Service is invited to consider the challenges in articulating the results chain, achieving sustainability and treating the private sector as cross-cutting.

*Annex A***The 2003 DAC Peer Review and Denmark's Achievements**

<b>Key Issue</b>	<b>Recommendations expressed in 2003</b>	<b>Achievements since 2003</b>
Policy framework	In order to maintain its position of leadership in the development co-operation arena, Denmark is encouraged to keep development issues high on the government political agenda and seek out new approaches to maintain and extend broad involvement and support.	Since 2003, the government has given a higher priority to development policy, including active engagement by the Prime Minister, appointment of a Minister for Development Co-operation, and broader debate in parliament. Stronger emphasis has been accorded to the Minister's annual presentation to Parliament of the government's priorities for Danish development assistance, which reinforces political ownership of the aid programme. The MFA also facilitates field visits by MPs so they can engage with the technical issues of aid delivery.
Public awareness and support	Danida leadership should continue to seek out regular and structured opportunities to engage the Danish public and institutions of civil society in a dialogue on development co-operation issues.	Public information is of high priority for the MFA and benefits from an active involvement by the Minister. The communication strategy 2003-06 focused on the MDGs and successfully increased public knowledge of and interest in development assistance. The NGOs have a structured and open dialogue with the MFA, although they are concerned by the 40% reduction in Danida's budget for development education since 2001. Danida will need to intensify efforts to combine innovative communication with bringing more complex development issues and new aid modalities to the public. It should pursue its efforts towards more openness in relation to the media.
Co-ordination with other donors to assess multilateral entities	The DAC welcomes Denmark's efforts to form coalitions with donors on issues concerning the performance of multilateral institutions. In the field the active multilateralism approach could be used to promote improved linkages between bilateral and multilateral agencies.	Denmark is actively promoting joint donor strategies to assess performance of multilateral organisations and has conducted innovative investigations in this area with other donors. Denmark actively participates in the MOPAN and, since 2003, in the Utstein group of likeminded countries co-ordinating their policy on UN development activities and the participation in the governing bodies of the IFIs. Denmark will go further in initiating joint external evaluations, as suggested by the NAO's report on multilateral aid. At the field level, Denmark has been able to develop effective links and build synergies between its bilateral and multilateral channels.
Aid volume	In the spirit of the Monterrey Consensus, the DAC encourages Denmark to make every effort to maintain its current level of ODA volume.	Danish aid volume has increased in real terms since 2003. The government has made a commitment that Danish development assistance will not fall below 0.8% of GNI. Denmark is encouraged to continue this policy.
Geographic and sector allocation	The DAC encourages Denmark to pursue past efforts to avoid geographic dispersion and to maintain its strategic vision in allocating funds to priority countries and sectors.	Danish aid is focused on 16 "programme countries" and is strongly concentrated on Africa and on LDCs, in line with Denmark's overarching objective of poverty reduction and its new Africa policy. Danish aid is appropriately focused in each country on a limited number of sectors, and its current policy of not setting input targets enables Denmark to align its programme to the partner country's needs. Denmark is encouraged to further develop a strategic framework for engagement in fragile states.

Policy coherence	As the leading advocate for development issues within the Danish system, Danida needs to play a stronger leadership role among Danish institutions in analysing and promoting the developmental coherence of policy decisions.	Development policy and development assistance are integral parts of Danish foreign policy engagement. As trade, security and development fall within the MFA's remit, the MFA has made substantive achievements in promoting coherence between these areas. Denmark's consensual and organic approach is an asset but it faces challenges in addressing the critical policy coherence issues on the horizon, particularly when negotiating outside the remit of the MFA. Denmark will need to consider how it will build on its existing mechanisms to promote policy coherence with development beyond the MFA's traditional areas.
Aid untying to LDCs	Denmark's announcement on untying aid with respect to procurement in other European Union member states provides a solid basis for further untying Danish ODA. Denmark now is invited to revisit its approach to the implementation of the OECD Untying Recommendation and to fully comply with it.	Denmark has untied all aid as of November 2006, and food aid will be untied from 2008 onwards. In addition, since 2004, all procurement under the grant financed development programme, including food aid, has been untied with regard to other EU and European Economic Area countries. Thus, Denmark has gone beyond the DAC recommendation for aid untying. However, Denmark's tied Mixed Credit Programme is not in accordance with the recommendation. Denmark should therefore reconsider its exception to aid untying in light of the Paris Declaration on aid effectiveness and the improved overall performance of DAC members on effort sharing.
Sharing experience	The DAC encourages Danida to continue to periodically reassess and summarise its extensive experience so as to share it systematically with the other members of the DAC and to promote a common donor understanding of issues and best practice approaches.	Denmark plays a leading role within the donor community in promoting good practice in a number of DAC areas of importance, such as capacity development and mainstreaming cross-cutting issues. The Annual Performance Report, which since 2004 has summarised the results and experiences of Danish development assistance, is a tool to promote new ideas and initiatives internally and externally. The more systematic monitoring of Danish strategies will offer new opportunities for sharing Danish experience and promoting best practice approaches.
Decentralisation	Danida is encouraged to instigate regular, organised and high level tracking of its new system of decentralised development co-operation.	Denmark is invited to undertake an evaluation of the MFA's decentralisation exercise. In addition to the direct benefit for Denmark, it will also allow other DAC members, and new donors, to learn from the experience.
Results-based management	Danida is encouraged to maintain close collaboration with other DAC members who are seeking to implement similarly important systems of results-based management (RBM).	Denmark participates actively in the DAC Working Party on Aid Effectiveness and the Joint Venture on Managing for Development Results. It has shared its Performance Monitoring Framework system and Annual Performance Report with partners, and participated in punctual exercises on developing RBM systems. Denmark was <i>inter alia</i> on the board developing the MfDR Sourcebook. Denmark has also promoted a multilateral RBM system in fora like MOPAN as well as through specific exercises like RBM assessments of specific multilateral organisation (UNDP, UNICEF). Denmark also has bilateral meetings with other DAC members in which the Danish PFM and RBM systems are discussed and experiences exchanged.

**Annex B**  
**OECD/DAC Standard Suite of Tables**

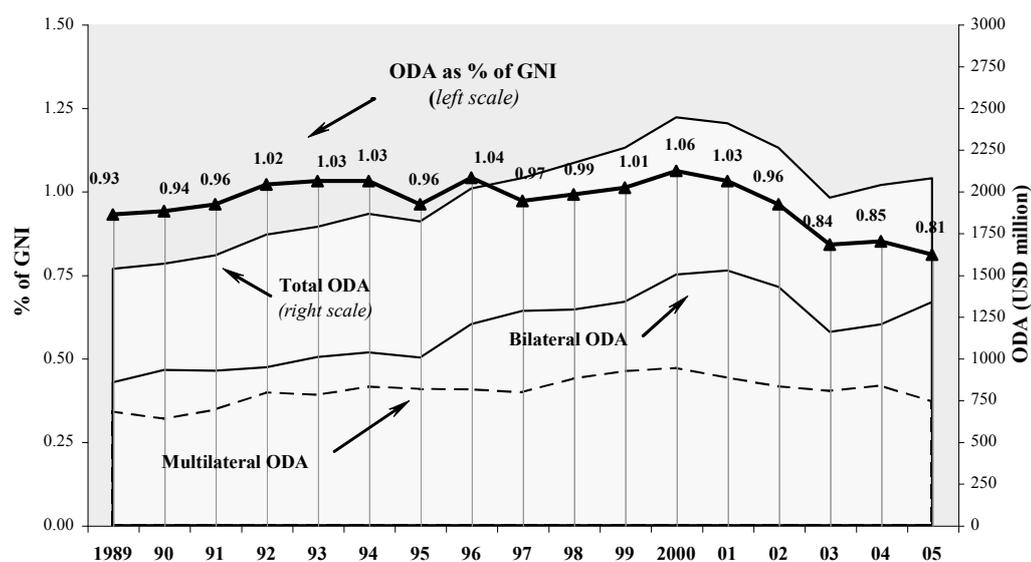
**Table B.1. Total financial flows**

USD million at current prices and exchange rates

Denmark	<i>Net disbursements</i>						
	1989-90	1994-95	2001	2002	2003	2004	2005
<b>Total official flows</b>	<b>1 018</b>	<b>1 572</b>	<b>1 630</b>	<b>1 640</b>	<b>1 789</b>	<b>2 058</b>	<b>2 101</b>
Official development assistance	<b>1 054</b>	<b>1 534</b>	<b>1 634</b>	<b>1 643</b>	<b>1 748</b>	<b>2 037</b>	<b>2 109</b>
Bilateral	609	849	1 035	1 038	1 032	1 202	1 357
Multilateral	445	686	600	605	717	835	751
Other official flows	- 36	38	- 4	- 3	41	21	- 8
Bilateral	- 58	22	- 4	- 3	41	21	- 8
Multilateral	22	16	-	-	-	-	-
<b>Grants by NGOs</b>	<b>26</b>	<b>36</b>	<b>17</b>	<b>-</b>	<b>-</b>	<b>58</b>	<b>81</b>
<b>Private flows at market terms</b>	<b>- 60</b>	<b>- 49</b>	<b>998</b>	<b>- 63</b>	<b>106</b>	<b>518</b>	<b>33</b>
Bilateral: <i>of which</i>	- 60	- 49	998	- 63	106	518	33
Direct investment	84	4	998	- 63	106	518	33
Export credits	- 161	- 54	-	-	-	-	-
Multilateral	-	-	-	-	-	-	-
<b>Total flows</b>	<b>984</b>	<b>1 559</b>	<b>2 645</b>	<b>1 577</b>	<b>1 896</b>	<b>2 634</b>	<b>2 215</b>
<i>for reference:</i>							
ODA (at constant 2004 USD million)	1 550	1 840	2 407	2 258	1 960	2 037	2 076
ODA (as a % of GNI)	0.94	0.99	1.03	0.96	0.84	0.85	0.81
Total flows (as a % of GNI) (a)	0.88	1.01	1.67	0.93	0.91	1.10	0.85

a. To countries eligible for ODA.

**ODA net disbursements**  
**At constant 2004 prices and exchange rates and as a share of GNI**



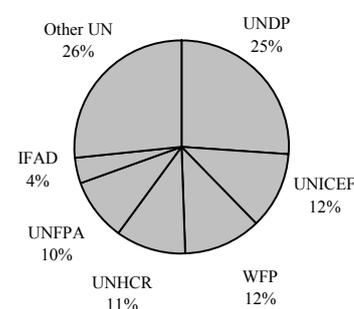
**Table B.2. ODA by main categories**

Denmark	Constant 2004 USD million					Per cent share of gross disbursements					Total DAC 2005%
	2001	2002	2003	2004	2005	2001	2002	2003	2004	2005	
	<i>Disbursements</i>										
<b>Gross Bilateral ODA</b>	<b>1 595</b>	<b>1 505</b>	<b>1 315</b>	<b>1 265</b>	<b>1 400</b>	<b>64</b>	<b>64</b>	<b>62</b>	<b>60</b>	<b>65</b>	<b>79</b>
<i>Grants</i>	<i>1 544</i>	<i>1 401</i>	<i>1 283</i>	<i>1 192</i>	<i>1 392</i>	<i>62</i>	<i>60</i>	<i>61</i>	<i>57</i>	<i>65</i>	<i>71</i>
Project and programme aid	891	859	809	831	786	36	37	38	40	37	15
Technical co-operation	204	128	124	112	113	8	5	6	5	5	18
Developmental food aid	-	-	1	0	0	-	-	0	0	0	1
Humanitarian aid	-	-	13	10	221	-	-	1	0	10	6
Action relating to debt	16	24	-	-	50	1	1	-	-	2	22
Administrative costs	121	120	109	102	115	5	5	5	5	5	3
Other grants	312	270	227	137	107	13	12	11	7	5	6
<i>Non-grant bilateral ODA</i>	<i>51</i>	<i>105</i>	<i>32</i>	<i>73</i>	<i>8</i>	<i>2</i>	<i>4</i>	<i>2</i>	<i>3</i>	<i>0</i>	<i>8</i>
New development lending	-	-	-	-	-	-	-	-	-	-	7
Debt rescheduling	29	67	4	20	-	1	3	0	1	-	1
Acquisition of equity and other	22	38	28	54	8	1	2	1	3	0	0
<b>Gross Multilateral ODA</b>	<b>883</b>	<b>831</b>	<b>803</b>	<b>835</b>	<b>740</b>	<b>36</b>	<b>36</b>	<b>38</b>	<b>40</b>	<b>35</b>	<b>21</b>
UN agencies	411	330	337	348	288	17	14	16	17	13	5
EC	129	150	164	179	193	5	6	8	9	9	8
World Bank group	95	88	86	100	95	4	4	4	5	4	4
Regional development banks (a)	52	87	64	50	51	2	4	3	2	2	2
Other multilateral	196	175	152	159	113	8	8	7	8	5	2
<b>Total gross ODA</b>	<b>2 478</b>	<b>2 337</b>	<b>2 118</b>	<b>2 100</b>	<b>2 140</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Repayments and debt cancellation</b>	<b>- 72</b>	<b>- 79</b>	<b>- 159</b>	<b>- 63</b>	<b>- 64</b>						
<b>Total net ODA</b>	<b>2 407</b>	<b>2 258</b>	<b>1 960</b>	<b>2 037</b>	<b>2 076</b>						
<i>For reference:</i>											
Associated financing (b)	44	29	14	33	44						
<i>ODA to and channelled through NGOs</i>											
- In USD million	183	159	158	153	147						
- In percentage of total net ODA	8	7	8	8	7						
- Median DAC percentage of total net ODA	8	8	8	8	9						

a Excluding EBRD.

b. ODA grants and loans in associated financing packages.

**Contributions to UN Agencies  
(2004-05 Average)**



**Contributions to Regional Development  
Banks (2004-05 Average)**

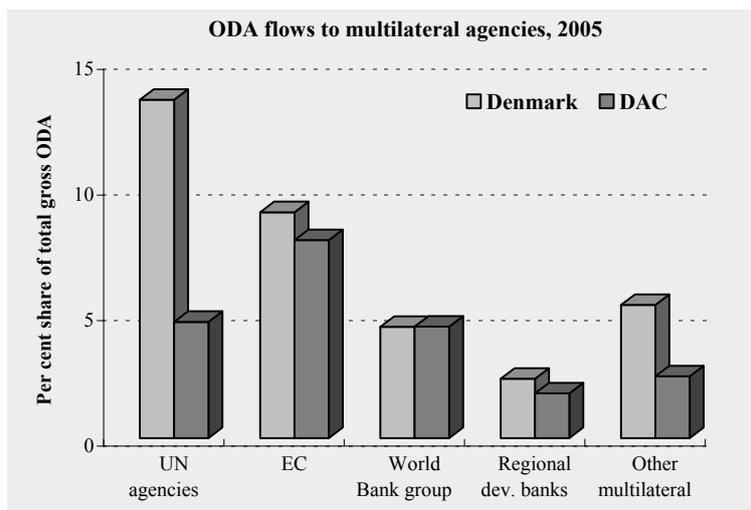
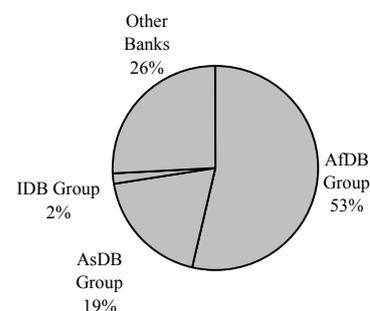
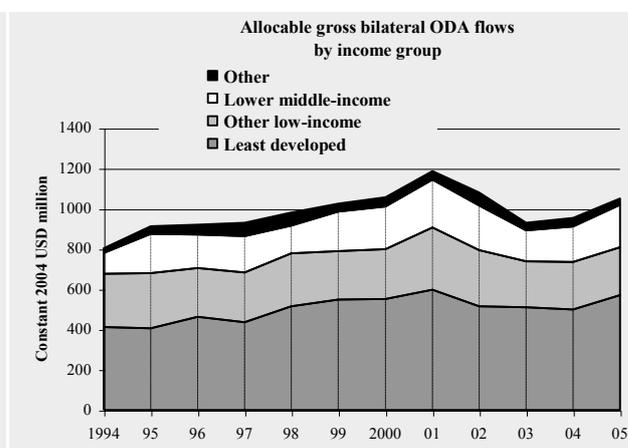
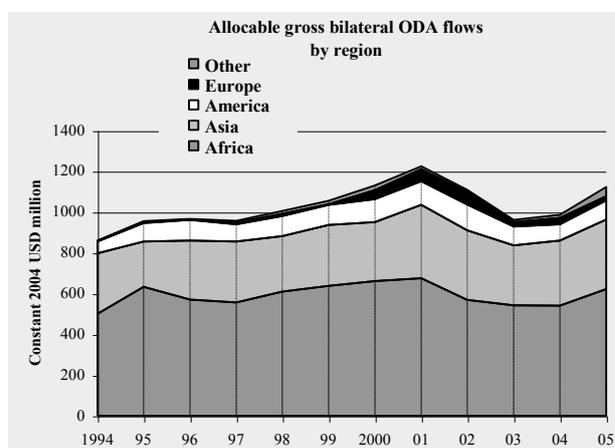


Table B.3. Bilateral ODA allocable by region and income group

Denmark	Constant 2004 USD million					Per cent share					Total DAC
	2001	2002	2003	2004	2005	2001	2002	2003	2004	2005	2005%
	<b>Africa</b>	676	570	542	540	622	55	51	56	55	55
Sub-Saharan Africa	630	545	496	510	580	51	49	52	52	52	<b>31</b>
North Africa	37	22	46	22	21	3	2	5	2	2	<b>3</b>
<b>Asia</b>	359	340	295	320	341	29	31	31	32	30	<b>24</b>
South and Central Asia	169	173	170	146	175	14	16	18	15	16	<b>10</b>
Far East	185	163	125	172	158	15	15	13	17	14	<b>12</b>
<b>America</b>	117	127	91	80	93	10	11	9	8	8	<b>8</b>
North and Central America	70	74	55	49	64	6	7	6	5	6	<b>4</b>
South America	46	53	36	32	29	4	5	4	3	3	<b>3</b>
<b>Middle East</b>	13	8	11	16	44	1	1	1	2	4	<b>29</b>
<b>Oceania</b>	0	0	0	0	-	0	0	0	0	-	<b>1</b>
<b>Europe</b>	59	64	22	31	22	5	6	2	3	2	<b>4</b>
<b>Total bilateral allocable by region</b>	<b>1 224</b>	<b>1 108</b>	<b>960</b>	<b>987</b>	<b>1 121</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Least developed</b>	596	514	510	499	569	50	48	55	52	54	<b>23</b>
<b>Other low-income</b>	311	280	229	236	239	26	26	25	25	23	<b>20</b>
<b>Lower middle-income</b>	236	221	153	177	210	20	20	16	19	20	<b>53</b>
<b>Upper middle-income</b>	43	66	37	42	32	4	6	4	4	3	<b>3</b>
<b>More advanced developing countries</b>	-	-	-	-	-	-	-	-	-	-	<b>-</b>
<b>Total bilateral allocable by income</b>	<b>1 186</b>	<b>1 081</b>	<b>929</b>	<b>954</b>	<b>1 050</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<i>For reference:</i>											
<i>Total bilateral</i>	1 595	1 505	1 315	1 265	1 400	100	100	100	100	100	100
<i>of which: Unallocated by region</i>	371	397	355	278	279	23	26	27	22	20	13
<i>of which: Unallocated by income</i>	409	424	386	311	350	26	28	29	25	25	18



1. Each region includes regional amounts which cannot be allocated by sub-region. The sum of the sub-regional amounts may therefore fall short of the regional total.

Table B.4. Main recipients of bilateral ODA

Denmark	1994-95			Memo: DAC countries' median	1999-2000			Memo: DAC countries' median	Gross disbursements, two-year averages					
	Current USD million	Constant 2004 USD mn.	Per cent share		Current USD million	Constant 2004 USD mn.	Per cent share		Current USD million	Constant 2004 USD mn.	Per cent share	Memo: DAC countries' median		
Tanzania	68	83	9		Tanzania	75	103	10		Tanzania	90	89	9	
Egypt	59	68	8		Uganda	59	82	8		Viet Nam	73	72	7	
Uganda	57	68	8		Mozambique	49	68	7		Mozambique	66	66	7	
Zimbabwe	52	60	7		Egypt	41	57	5		Uganda	64	64	6	
Mozambique	41	49	6		Viet Nam	40	56	5		Ghana	58	58	6	
<b>Top 5 recipients</b>	<b>276</b>	<b>328</b>	<b>38</b>	<b>38</b>	<b>Top 5 recipients</b>	<b>265</b>	<b>367</b>	<b>35</b>	<b>34</b>	<b>Top 5 recipients</b>	<b>352</b>	<b>349</b>	<b>35</b>	<b>43</b>
Viet Nam	41	51	6		Bangladesh	38	52	5		Bangladesh	49	48	5	
India	36	44	5		Ghana	38	52	5		Zambia	47	46	5	
Bangladesh	33	40	5		Burkina Faso	30	41	4		Burkina Faso	41	40	4	
Nicaragua	33	38	5		India	29	39	4		Nicaragua	37	37	4	
Ghana	26	31	4		Malawi	27	37	4		Benin	34	34	3	
<b>Top 10 recipients</b>	<b>445</b>	<b>532</b>	<b>62</b>	<b>57</b>	<b>Top 10 recipients</b>	<b>425</b>	<b>587</b>	<b>56</b>	<b>53</b>	<b>Top 10 recipients</b>	<b>559</b>	<b>555</b>	<b>55</b>	<b>62</b>
Nepal	25	31	4		Nicaragua	26	36	3		Nepal	31	31	3	
Kenya	24	29	3		Zimbabwe	26	35	3		Kenya	30	29	3	
Zambia	22	26	3		Zambia	24	34	3		Bolivia	27	27	3	
South Africa	19	22	3		Nepal	24	34	3		Egypt	21	21	2	
Thailand	17	21	2		Bolivia	21	29	3		South Africa	21	21	2	
<b>Top 15 recipients</b>	<b>552</b>	<b>660</b>	<b>77</b>	<b>67</b>	<b>Top 15 recipients</b>	<b>546</b>	<b>755</b>	<b>73</b>	<b>65</b>	<b>Top 15 recipients</b>	<b>690</b>	<b>684</b>	<b>68</b>	<b>72</b>
Burkina Faso	17	21	2		South Africa	17	24	2		China	20	20	2	
Angola	14	16	2		Thailand	17	22	2		Sri Lanka	19	19	2	
Benin	10	12	1		Benin	14	20	2		Afghanistan	19	19	2	
Bhutan	9	11	1		Malaysia	12	17	2		Indonesia	18	18	2	
Namibia	9	11	1		Kenya	12	17	2		Bhutan	18	18	2	
<b>Top 20 recipients</b>	<b>612</b>	<b>731</b>	<b>85</b>	<b>75</b>	<b>Top 20 recipients</b>	<b>619</b>	<b>855</b>	<b>82</b>	<b>75</b>	<b>Top 20 recipients</b>	<b>784</b>	<b>778</b>	<b>78</b>	<b>78</b>
<b>Total (85 recipients)</b>	<b>718</b>	<b>857</b>	<b>100</b>		<b>Total (92 recipients)</b>	<b>753</b>	<b>1 041</b>	<b>100</b>		<b>Total (90 recipients)</b>	<b>1 011</b>	<b>1 002</b>	<b>100</b>	
Unallocated	277	332			Unallocated	296	412			Unallocated	333	330		
<b>Total bilateral gross</b>	<b>995</b>	<b>1 189</b>			<b>Total bilateral gross</b>	<b>1 049</b>	<b>1 453</b>			<b>Total bilateral gross</b>	<b>1 344</b>	<b>1 333</b>		

**Table B.5. Bilateral ODA by major purposes**

at current prices and exchange rates

*Commitments - Two-year averages*

Denmark	1994-95		1999-2000		2004-05		2004-05 Total DAC per cent
	USD million	Per cent	USD million	Per cent	USD million	Per cent	
<b>Social infrastructure &amp; services</b>	<b>196</b>	<b>29</b>	<b>280</b>	<b>34</b>	<b>711</b>	<b>43</b>	<b>34</b>
Education	32	5	42	5	122	7	8
of which: basic education	4	1	23	3	43	3	2
Health	61	9	66	8	117	7	4
of which: basic health	1	0	47	6	76	5	2
Population & reproductive health	-	-	2	0	12	1	3
Water supply & sanitation	22	3	100	12	212	13	5
Government & civil society	43	6	51	6	212	13	11
Other social infrastructure & services	38	6	19	2	35	2	4
<b>Economic infrastructure &amp; services</b>	<b>158</b>	<b>23</b>	<b>198</b>	<b>24</b>	<b>249</b>	<b>15</b>	<b>14</b>
Transport & storage	61	9	154	19	166	10	5
Communications	33	5	2	0	6	0	1
Energy	57	8	42	5	59	4	5
Banking & financial services	4	1	0	0	0	0	1
Business & other services	2	0	1	0	19	1	1
<b>Production sectors</b>	<b>73</b>	<b>11</b>	<b>127</b>	<b>16</b>	<b>267</b>	<b>16</b>	<b>6</b>
Agriculture, forestry & fishing	46	7	122	15	177	11	3
Industry, mining & construction	26	4	2	0	90	6	2
Trade & tourism	2	0	2	0	-	-	0
Other	-	-	-	-	0	0	0
<b>Multisector</b>	<b>100</b>	<b>15</b>	<b>50</b>	<b>6</b>	<b>137</b>	<b>8</b>	<b>7</b>
<b>Commodity and programme aid</b>	<b>12</b>	<b>2</b>	<b>28</b>	<b>3</b>	<b>52</b>	<b>3</b>	<b>3</b>
<b>Action relating to debt</b>	<b>9</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>68</b>	<b>4</b>	<b>21</b>
<b>Humanitarian aid</b>	<b>0</b>	<b>0</b>	<b>-</b>	<b>-</b>	<b>10</b>	<b>1</b>	<b>8</b>
<b>Administrative costs of donors</b>	<b>66</b>	<b>10</b>	<b>78</b>	<b>10</b>	<b>67</b>	<b>4</b>	<b>5</b>
<b>Core support to NGOs</b>	<b>4</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>71</b>	<b>4</b>	<b>2</b>
<b>Refugees in donor countries</b>	<b>67</b>	<b>10</b>	<b>51</b>	<b>6</b>	<b>10</b>	<b>1</b>	<b>3</b>
<b>Total bilateral allocable</b>	<b>686</b>	<b>100</b>	<b>813</b>	<b>100</b>	<b>1 643</b>	<b>100</b>	<b>100</b>
<i>For reference:</i>							
Total bilateral	765	51	858	59	1 690	68	77
of which: Unallocated	79	5	45	3	48	2	2
Total multilateral	728	49	602	41	800	32	23
<b>Total ODA</b>	<b>1 493</b>	<b>100</b>	<b>1 460</b>	<b>100</b>	<b>2 491</b>	<b>100</b>	<b>100</b>

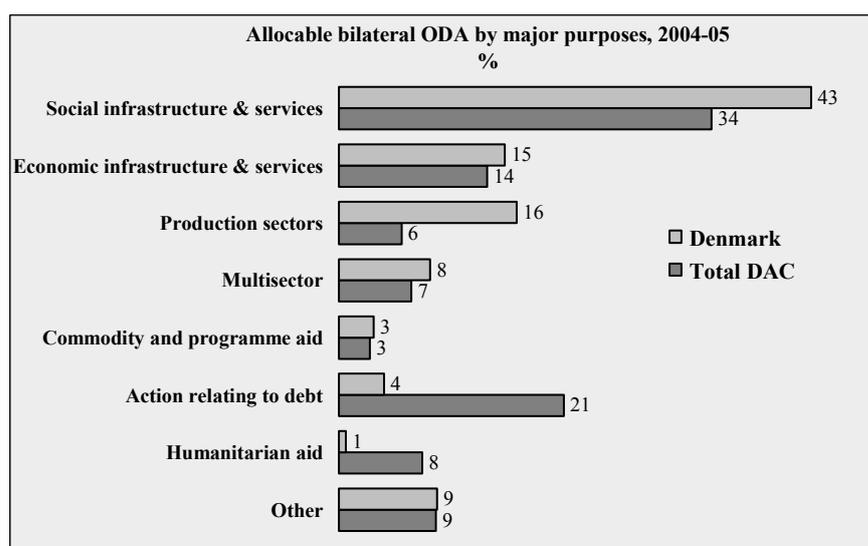


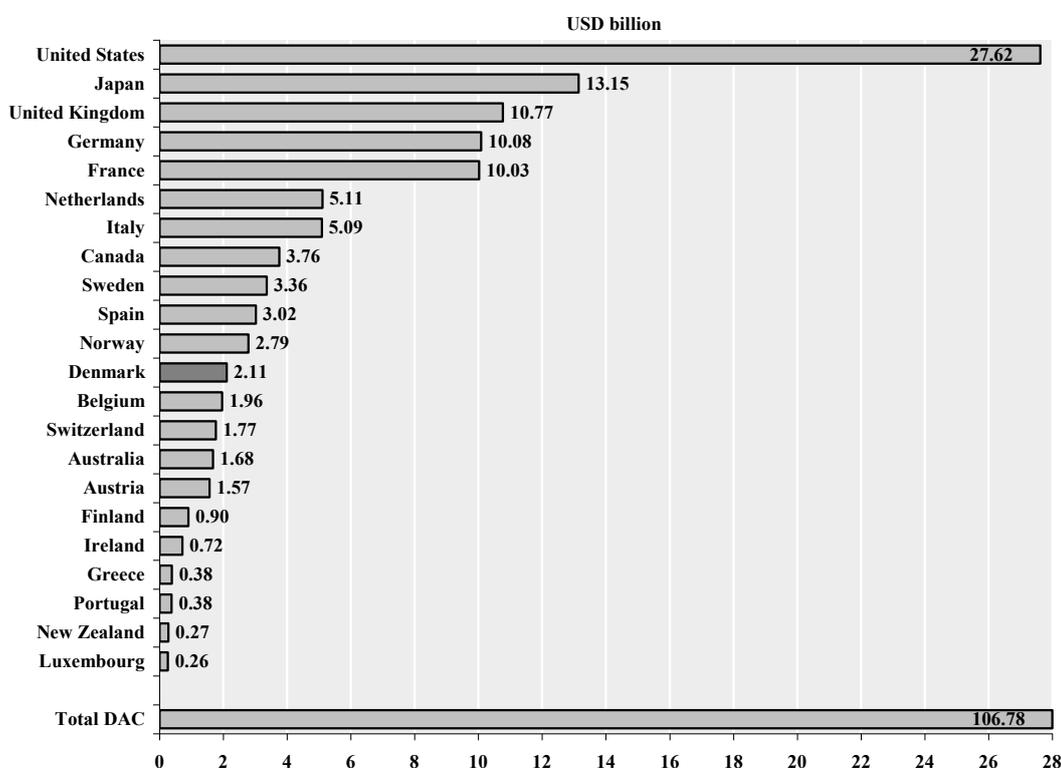
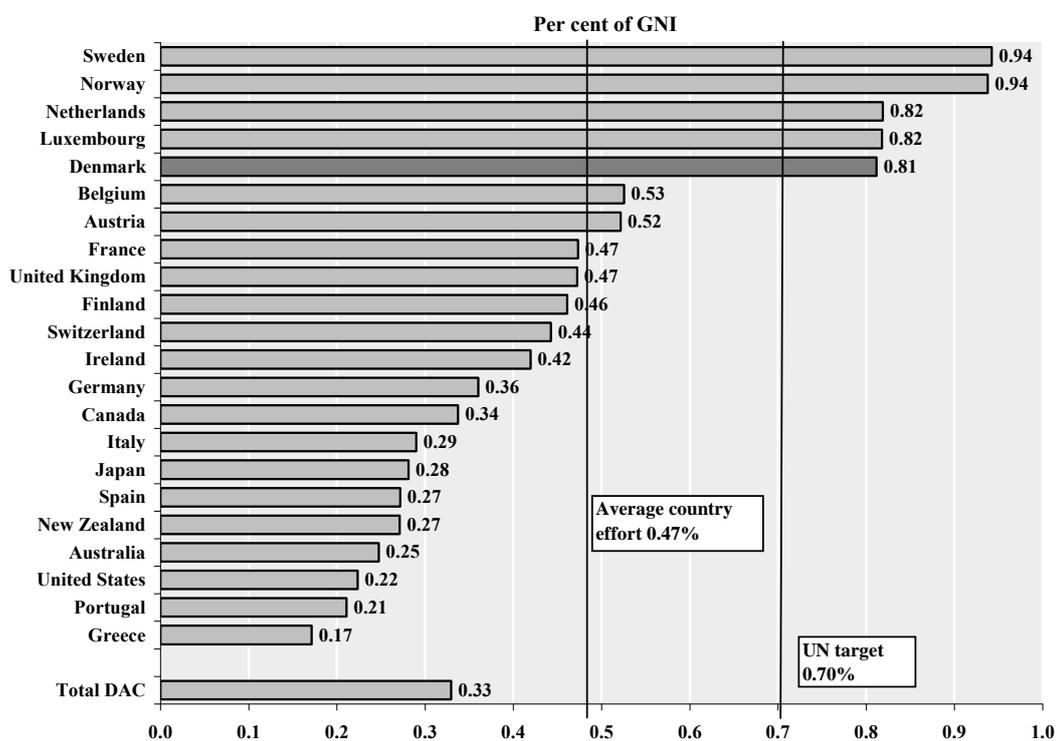
Table B.6. Comparative aid performance

	Official development assistance			Grant element of ODA (commitments) 2005  % ( a )	Share of multilateral aid				ODA to LDCs Bilateral and through multilateral agencies 2005	
	2005		99-2000 to 04-05 Ave. annual % change in real terms		2005		2005		% of ODA	% of GNI
	USD million	% of GNI			% of ODA	% of GNI	( b )	( c )		
Australia	1 680	0.25	1.9	100.0	13.8		0.03		24.9	0.06
Austria	1 573	0.52	12.1	100.0	21.7	7.7	0.11	0.04	15.5	0.08
Belgium	1 963	0.53	9.4	99.7	33.4	14.6	0.18	0.08	31.0	0.16
Canada	3 756	0.34	6.6	100.0	24.6		0.08		27.9	0.09
<b>Denmark</b>	<b>2 109</b>	<b>0.81</b>	<b>-2.6</b>	<b>100.0</b>	<b>35.6</b>	<b>26.4</b>	<b>0.29</b>	<b>0.21</b>	<b>38.6</b>	<b>0.31</b>
Finland	902	0.46	8.4	100.0	33.8	18.3	0.16	0.08	27.2	0.13
France	10 026	0.47	7.0	95.0	27.8	9.7	0.13	0.05	23.9	0.11
Germany	10 082	0.36	5.0	95.2	26.1	4.3	0.09	0.02	18.7	0.07
Greece	384	0.17	2.7	100.0	46.3	5.2	0.08	0.01	20.7	0.04
Ireland	719	0.42	12.9	100.0	32.9	17.4	0.14	0.07	50.7	0.21
Italy	5 091	0.29	10.6	95.5	55.4	30.6	0.16	0.09	27.6	0.08
Japan	13 147	0.28	-1.9	87.5	20.8		0.06		17.7	0.05
Luxembourg	256	0.82	7.7	100.0	27.1	17.4	0.22	0.14	41.2	0.34
Netherlands	5 115	0.82	0.4	100.0	28.0	19.6	0.23	0.16	32.4	0.27
New Zealand	274	0.27	4.4	100.0	18.2		0.05		25.5	0.07
Norway	2 786	0.94	4.7	100.0	27.0		0.25		36.9	0.35
Portugal	377	0.21	12.0	96.7	42.1	8.3	0.09	0.02	55.6	0.12
Spain	3 018	0.27	6.9	97.9	38.3	12.3	0.10	0.03	27.1	0.07
Sweden	3 362	0.94	6.8	100.0	32.9	27.0	0.31	0.25	32.7	0.31
Switzerland	1 767	0.44	5.7	100.0	20.8		0.09		22.9	0.10
United Kingdom	10 767	0.47	12.3	100.0	24.2	12.8	0.11	0.06	25.1	0.12
United States	27 622	0.22	17.2	100.0	8.5		0.02		20.6	0.05
<b>Total DAC</b>	<b>106 777</b>	<b>0.33</b>	<b>7.2</b>	<b>97.1</b>	<b>23.1</b>	<b>14.4</b>	<b>0.08</b>	<b>0.05</b>	<b>24.0</b>	<b>0.08</b>
Memo: Average country effort		0.47								

*Notes:*

- a. Excluding debt reorganisation.
- b. Including EC.
- c. Excluding EC.
- .. Data not available.

Graph B.1. Net ODA from DAC countries in 2005



## *Annex C*

### **Assessment of Denmark's Humanitarian Aid**

This annex assesses Denmark's humanitarian aid in accordance with the *Assessment Framework for Coverage of Humanitarian Action in DAC Peer Reviews*. Based on the Principles of Good Humanitarian Donorship (GHD), it covers the following areas: 1) humanitarian policies and principles; 2) policy coherence; 3) volume and distribution; 4) organisation and management; 5) cross-cutting issues; and 6) future considerations.

#### **Humanitarian assistance policies**

##### *The role and location of humanitarian aid in the ODA system*

Humanitarian assistance is a high priority for the Danish ODA system, as seen in its policy framework and levels of funding. Denmark is regarded as an effective, lean humanitarian aid donor with an established reputation for its work in both crisis response and policy engagement. It is regarded as one of the leading lights of the GHD initiative and plays an important part in international policy debates.

The 1998 *International Development Act* makes no specific mention of humanitarian assistance, but nonetheless mandates the MFA to undertake these activities. Humanitarian assistance is funded from specific annual budget lines published under the Finance Act, and is managed by the MFA. Activities include disaster preparedness, crisis response, core funding to multilateral agencies and engagement with policy initiatives such as GHD.

##### *Strategic approach*

Denmark's humanitarian aid is based on a clear strategic approach. The 2002 policy statement *Strategic Priorities for Humanitarian Assistance* identifies four themes as strategic priorities: 1) humanitarian principles and their advocacy; 2) working with a range of humanitarian actors with different comparative advantages; 3) quality and efficiency; and 4) prevention and sustainability. The policy statement remains relevant in guiding the programme but Denmark should review the statement and consider updating it in due course in the light of progress with the GHD initiative.

The Regions of Origin initiative is a strategic response by Denmark to the need for co-ordinated focus on lasting solutions to long-term refugee situations. Denmark has allocated DKK 1 billion (c. USD 178 million) for the period 2004 to 2008 for this initiative.

##### *Commitment to Good Humanitarian Donorship*

Denmark's *Strategic Priorities for Humanitarian Assistance* pre-date the GHD initiative but are consistent with its principles, which are prominently reflected within the policy statement. In 2003, Denmark endorsed the *Principles and Good Practice of GHD* and published a national implementation plan for GHD in 2005. It is strongly committed to GHD, and as current co-chair of the

initiative is placing a particular focus on ways to implement GHD in the field. The lessons from this effort should be shared with other donors. It would also be valuable to update the national GHD implementation plan and publish progress against the current plan.

### ***Strong civil society support***

Denmark's aid programme is notable for the strong support and engagement it receives from civil society. Its humanitarian programme is no exception, and a good example of this is the Humanitarian Contact Group. This comprises Danish ministry officials and NGO representatives who meet on thematic and crisis-specific issues to share information and analysis. It also has sub-working groups, for example on civil-military relations. It is an informal, technical group that is perceived to have influence within the MFA and be valuable to NGO and officials from other ministries. It would be useful to publish terms of reference for the group and lessons learned from the way it functions.

### **Co-ordination within the system and with external partners**

#### ***Within the Ministry of Foreign Affairs***

Denmark has considerable experience working in fragile states and in linking relief to rehabilitation and development, for example through its involvement in Afghanistan, Sudan, Sri Lanka and Somalia. While these are not programme countries, a sizeable portfolio of projects exists in all of them. There is an opportunity to bring more coherence and learn lessons by developing a policy framework for working in such contexts; this would allow Denmark to make more systematic use of its comparative advantage of flexibility in applying different aid modalities. Co-ordination between humanitarian and development branches of the MFA is vital to bring lessons to other crises from successful programmes such as in northern Uganda.

Disaster Risk Reduction (DRR) is acknowledged as a priority for the Humanitarian Department, although funding levels remain low and there is no structured policy framework specifically for DRR. However as DRR should primarily be a development activity, there is a need to ensure that DRR forms an important plank of country strategies. In 2006 a review was initiated to extract lessons learned by Denmark and international partners, and subsequently prepare guidelines, tools and activity plans for the integration of DRR in Danish humanitarian and development assistance.

#### ***Within the Danish government***

Co-operation across government on humanitarian issues is characteristic of the informal approach of many working relationships in Danish aid. In the sphere of civil-military co-operation, Denmark is actively engaged in developing operational modalities for civil-military co-operation which could provide, after making the necessary changes, useful lessons for other DAC donors, based on its military involvement in both Afghanistan and Iraq. For example, the MFA and Ministry of Defence have agreed a "joint concept" for security and reconstruction in crisis countries, based on the international guidelines on the use of Military and Civil Defence Assets in natural disasters (the Oslo guidelines) and complex emergencies (the MCDA guidelines), and with NGO involvement. However Denmark, like other donors, needs to continue to remain vigilant about the co-option of humanitarian action to achieve political or military goals. MFA needs to retain its lead position on humanitarian assistance in order to ensure its neutrality and independence, particularly through ensuring practical adherence to the Oslo and MCDA guidelines, to which the government is strongly committed. It also needs to make further progress on implementing the recommendation of the Kosovo evaluation with regard to its focus on solely national civil-military planning, to the exclusion of other international players such as the UN.

***With international donor partners***

Denmark is in at forefront of joint-working with other donors. It is a central player in the GHD initiative, of which it is current co-chair, and has led working groups on harmonising reporting. It is part of the Nordic Plus network of donors, participating actively in joint evaluations with other donors, such as the thematic evaluation of responses to IDP crises and the Tsunami Evaluation Coalition.

It is also at the forefront in applying principles of joint working to humanitarian action in its efforts to develop joint strategies with other donors; for example, its relationship with the United Nations High Commissioner for Refugees (UNHCR), where Canada and the UK are working with Denmark to develop a common strategy for support and engagement.

There is a significant risk of over-stretch given the small size of the Humanitarian Department. In responding to crises as well as engaging on international policy issues such as the reform of the international humanitarian system, the staffing appears to limit what it could achieve, including for example in influencing humanitarian agency reform and deliberations in the EU.

**Aid volumes, Channels and Allocations*****A leading donor in terms of modalities***

According to UN data, Denmark was the ninth largest bilateral contributor to humanitarian action in 2006. Denmark's own reporting shows disbursements totalling USD 184 million in 2005, equivalent to approximately 9% of its total ODA. Around 54% of Danish humanitarian assistance in 2004 was allocated to its top 15 recipients. Afghanistan, Sudan and Iraq received the largest shares, collectively around 20% of all Danish humanitarian assistance that year.

Denmark has traditionally placed a significant emphasis on multilateral funding channels, with core contributions and light earmarking. In 2005, 55% of its humanitarian funding was spent through unearmarked contributions through the UN system. Denmark is a leader in a number of funding and partnership approaches which are consistent with GHD and which should be shared with other DAC donors. For example, 25% of its humanitarian funding is multi-year through framework agreements with major humanitarian agencies. UNHCR is Denmark's largest recipient of funds, receiving around 25% of the entire humanitarian disbursements in 2005; Denmark is working with Canada and the UK to develop a joint strategy for their relationship with UNHCR. Denmark already has low levels of earmarking and is attempting to reduce this further. Denmark also contributed DKK 50 million (c. USD 8.7 million) to the Central Emergency Response Fund in both 2006 and 2007.

Denmark has been among the donors working within the GHD initiative to harmonise donor reporting requirements so as to reduce the burden on recipient agencies while maintaining accountability. In 2005 it agreed to accept the UNHCR Global Report as sufficient for all reporting.

However, we note that the new commitment-based budget system appears to present challenges to continuing some of these practices, particularly in terms of flexibility. While both the Humanitarian Department and recipient agencies were confident that solutions would be found, it is important that positive progress on GHD is not undermined by changes to accounting systems.

Denmark has recently changed the way it reports humanitarian assistance to the DAC, making trend analysis challenging.<sup>34</sup> However we would encourage Denmark to analyse its data to determine whether the humanitarian share of ODA is falling, as is occurring in some other DAC member countries.

The Humanitarian Department finances Denmark's contributions to the informal International Humanitarian Partnership of the UK and Nordic countries to provide in-kind staff and logistics support to UN agencies, via the Danish Emergency Management Agency (DEMA). In 2005 USD 7.5 million were provided to DEMA to respond to overseas humanitarian crises.

In limited circumstances, the MFA has provided support to the Ministry of Defence to fund humanitarian activities where insecurity limits the role that civilian actors can play, for example in Afghanistan. It is important that the MFA's strict guidelines are followed to ensure that funding is only provided to the military as a last resort.

### **Organisation and management**

Humanitarian aid is managed by the Department of Humanitarian Assistance and NGO Co-operation within the South Group of the MFA. The humanitarian team appears stretched in terms of both managing grants and engaging with policy issues. Although it is a similar size to other comparative donors (c. 17 professionals), the balance between policy and desk officers may be worth reviewing.

#### ***The role of decentralisation and embassies***

In the decentralised programme, the role of embassies in appraising and monitoring humanitarian funding is unclear and it would be valuable to clarify and strengthen this. A greater input into decision making and analysis by relevant embassies on humanitarian issues would provide a valuable cross-check to the information received from operational agencies funded by Denmark, and feed into strategic discussions. The recent decentralisation of multilateral funding to multilateral embassies needs to be analysed in terms of the risks of making multilateral coordination more complex. A single focal point, for example on UNHCR issues and strategy would help clarify responsibility and reporting lines – particularly when crisis-specific funding is not decentralised.

#### ***Strong partnerships***

The longer term funding opportunities available to UN and NGO partners through multi-year frameworks are very welcome in allowing more predictability, consistent with GHD. The Humanitarian Department should learn from the development approaches to such frameworks to ensure the new commitment-based budget system does not undermine this. The inclusion of the NGO Co-operation Unit within the Humanitarian Department provides useful synergies in having a single point of contact for NGOs working on both humanitarian and development projects. On average half of humanitarian contributions from the Danish government are made to NGOs.

Denmark's experience with results-based management has been extended to humanitarian action and there may be useful lessons for other DAC donors wishing to strengthen this part of their approach.

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34. According to DAC data, humanitarian aid disbursements for 2005 totalled USD 153 million at 2004 values, 7% of total ODA.

A significant number of Denmark's evaluations of aid have focused on humanitarian assistance, including joint evaluations with other donors. Recently Denmark actively participated in the Tsunami Evaluation Coalition, sitting on the Core Management Group and leading the thematic study on the funding response to the tsunami. Denmark's continued focus on evaluating the impact of its humanitarian programmes is very welcome, particularly if learning continues to occur as a result of the evaluations.

### **Cross-cutting issues**

Denmark places advocacy for humanitarian issues at the forefront of its strategy document, and sees an important human rights component in its work. However it needs to further develop its approach to the protection of civilians in armed conflict and ensure that sufficient attention is given by its partners to this issue.

The involvement of beneficiaries in the planning and implementation of partner programmes has been included as a new requirement for NGO recipients of funding, consistent with GHD. Denmark needs to maintain focus on ensuring this requirement is met by partners in practice as well as in theory, through monitoring and evaluation.

### **Future considerations**

- Building on its experience of working in fragile states and of linking relief to rehabilitation and development, Denmark should consider updating its 2002 humanitarian policy statement in light of progress with the GHD initiative. In doing so, it should continue to engage in a consultative discussion with key partners on future directions for the programme. This would allow it to build on its comparative advantage of flexibility in the way it delivers aid. This policy framework and the strategy for engagement in fragile states should be closely linked.
- Denmark, like other donors, needs to continue to remain vigilant about the co-option of humanitarian action to achieve political or military goals. MFA needs to retain its lead position on humanitarian assistance in order to ensure its neutrality and independence, particularly through ensuring practical adherence to the MCDA and Oslo guidelines.

## *Annex D*

### **Field Visit to Ghana**

As part of the Peer Review of Denmark, a team of examiners visited Ghana from 9 to 15 December 2006 to review Danish aid to that country. In this field visit, the team met with staff at the Royal Danish Embassy and their various partners - government officials at ministries, representatives of Danish NGOs and Ghanaian Civil Society organisations, multilateral and bilateral donor organisations, and contracting agencies. The team also visited business projects in Accra and district water supply programmes in the Volta Region. This annex is an account of the visit, and also incorporates further study of documentation on the situation in Ghana, the team's observations, and the embassy's response.

#### **Ghana's development context**

Ghana has made a **peaceful democratic transition** from military rule and President Kufuor's New Year message in 2007, celebrating 50 years of independence, indicated that the present government is trying to consolidate democracy and good governance. The President pointed out that Ghana had faced several challenges during 2006, in particular inflation of crude oil prices, industrial actions in previously stable sectors, violent crime, drug-trafficking and unfavourable weather conditions which had led to cuts in power supplies. He also pointed to factors that helped Ghana to cope with these challenges: open social discourse, improving efficiency of macroeconomic management, partnerships of the private and public sectors, improvements in governance institutions and in law and order.

According to Haven,<sup>35</sup> democracy in Ghana is thriving, and the government has actively encouraged open dialogue and made efforts to overcome the country's regional, religious and ethnic divisions that led to conflict in the past. An important element of these efforts is the policy of decentralisation, transferring more authority to the districts. These efforts to consolidate democracy and improve governance are also recognised by donors although there are concerns about corruption. Ghana was ranked 70 out of 163 countries by the Corruption Index produced by Transparency International in 2005. Recent actions by the government in Ghana may adversely affect freedom of the press and human rights.

Ghana is a poor country, but has been making **economic progress** in recent years. It is a predominantly agricultural country, ranking 138<sup>th</sup> on the UNDP Human Development Index, with GNI per capita of USD 380. Forty-five percent of the population exist on less than 1 USD per day. (See Appendix for Ghana's statistical indicators). There has been economic progress in recent years; 20 years of structural reforms culminated in substantial debt cancellation in 2005 at the G8 Summit. Debt is currently about 16% of GNI, so Ghana is no longer a deeply indebted country. The economic progress is visible in the development of the urbanised south and centre, especially Accra and Kumasi. The urban population is now 45%, and continuing to increase. There has been unequal development

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35. 2007 *Ghana Guide New Internationalist* <http://uk.oneworld.net/guides/ghana/development#Economy>

progress and the rural northern districts of the country have not matched the growth of the more urbanised south and centre. While Kumasi and Accra especially have experienced economic growth and physical expansion, the rural areas around these two economic centres remain rather poor.

Some observers have noted that the democratic process has yet to satisfy economic expectations; for example, in 2003, the *Afrobarometer*<sup>36</sup> showed that, while Ghanaians are committed to a liberal democracy, they are dissatisfied with their current economic situation, with unemployment as the main economic issue. Two-thirds of Ghanaians face permanent economic uncertainty as they do not rely on a regular wage or salary for their livelihood. This includes 35% who say they earn their living from petty trade. It is generally accepted that the government needs to do more to reform the regulatory and planning environment, which can constrain business opportunities.

Key issues for the agricultural economy have been commodity prices and transport. During the Ghana visit the team heard about the collapse of the chicken industry in recent years. According to Atarah,<sup>37</sup> “In 1992 domestic poultry farmers supplied 95% of the Ghanaian market, but by 2001 their market share had shrunk to just 11%.” The collapse was apparently caused by the import of heavily subsidised EU chickens and the inability of government to impose higher tariffs, which would have compromised Ghana’s poverty reduction strategy which encompasses trade liberalisation. Basic infrastructure is still lacking. Although Ghana’s transportation system is better than many of its West African neighbours, roads are in a poor state of repair and the country lacks a reliable air service or rail network to link its major cities or transport goods.

Ghana’s first **poverty reduction strategy paper** (GPRS I), issued in 2003, reflected a policy framework that was directed primarily towards the attainment of the MDGs. Ghana’s National Development Planning Commission assessed progress towards the MDGs in 2004.<sup>38</sup> By 2015, Ghana will probably meet the goals of poverty reduction, universal access to primary education, reduction of under-five mortality, and increased access to safe drinking water. Ghana could also potentially halt the spread of HIV/AIDS and malaria, integrate the principles of sustainable development, and deal comprehensively with debt. It will probably fail to reach four other goals. Ghana’s current strategy, published in 2005 and symbolically renamed the **Growth and Poverty Reduction Strategy** (GPRS II), introduced a shift of strategic focus. The central goal of the new strategy is to accelerate the growth of the economy so that Ghana can make progress towards all goals.

GPRS II has the ambition of bringing Ghana within reach of becoming a middle income country by encouraging financial flows. The strategy aims to increase foreign direct investment by building a business-friendly environment, with particular reference to information technology and tourism. The Bank of Ghana aims to reduce the cost of credit to business. The country also benefits from overseas remittances of about USD 1.5 billion,<sup>39</sup> from Ghana’s large diaspora community; these make a very significant contribution to development. Remittances could rise substantially if banking changes and mobile telephony make transfers easier (as is happening in other parts of Africa). Ghana benefited from about USD 1.35 billion in aid (2004), which constituted 16% of Ghana’s GNI.

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36. E. Gyimah-Boadi and Kwabena Amoah Awuah Mensah, 2003. “The Growth of Democracy in Ghana despite Economic Dissatisfaction: A Power Alternation Bonus?” *Afrobarometer Paper No. 28*.

37. Linus Atarah, 2005, *Playing Chicken: Ghana vs. the IMF*, CorpWatch.

38. NPDC, 2005, *Growth and Poverty Reduction Strategy (GPRS II)*, Government of Ghana

39. This figure is in GPRS II. According to OECD DAC, net private flows were USD 749 million.

## Danish aid programme

Denmark contributes ODA of about USD 58 million (2003/04 average), which makes Denmark Ghana's ninth largest donor (sixth largest bilateral). At the same time, this amount shows that Ghana is an important partner for Denmark, ranking fifth among Denmark's partners. Ghana has been a programme country for Denmark since 1989. Denmark's commitment to Ghana is justified because Ghana is a poor country making efforts to reduce poverty, enhance economic growth and improve democracy. During the team's visit to Ghana, various interlocutors expressed their appreciation for Denmark's strong commitment to development and its sizeable programme in Ghana.

Denmark has produced a *Strategy for the Danish Development Co-operation with Ghana 2004-2008*, which sets out the principles for supporting Ghana. The GPRS II provides a framework for Danish support. Within this framework, Denmark endeavours to:

- enhance ownership of the development strategy by aligning support to the GPRS II;
- promote the role of the private sector;
- strengthen the decentralisation process;
- enhance poverty targeting and mainstreaming in the sector support programmes;
- promote good governance.

### *Sector allocation*

Denmark and Ghana agreed on the following areas for support during 2004 to 2008: sustainable human development, sustainable economic growth, macroeconomic and institutional reforms sustaining the GRPS, and sustainable livelihoods and conflict prevention. The country aid framework for Danish ODA (in million DKK) in Ghana for the period 2003 to 2006 is shown in the table below.

**Table D.1. Country aid framework for Danish ODA in Ghana (2003-06)**

in million DKK

<b>Sector</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
Health	67	91	65	64
Water & sanitation	93	84	60	70
Roads	98	49	90	122
Business sector	5	30	35	22
Good governance & human rights	3	19	30	15
General budget support	20	15	10	34
Other (inc. small projects)	10	5	3	2
<b>Total</b>	<b>296</b>	<b>293</b>	<b>295</b>	<b>329</b>
In addition B2B*	22	12	5	6

\*B2B: Business to Business programme.

The embassy stressed that Denmark takes a strategic approach to sector choice, recognising capacity constraints. The strategy is to focus on two productive sectors, two social sectors and some cross-cutting issues, but the sector allocations show that this intention is still to be realised. While small projects account for very little of the budget, they take up a lot of administrative time. We

understand that there are times when new political requirements emanate from HQ (e.g. HIV/AIDS), but there is no accompanying instruction to downgrade a previous commitment.

Good governance is an important theme underlying the programme, and which the table above does not fully bring out. Support to decentralisation, good governance and human rights amounted to DKK 15 million in 2006. The table above shows that the roads sector takes the largest share, as a result of a major trunk road project that is coming to an end. Denmark does not expect to take on a similar roads project in future. We noted that there had been recent controversy in Ghana in the roads sector, which led to the resignation of the Minister of Transport. Decentralisation in Ghana is increasingly a leading theme for Danish aid. Denmark is supporting capacity development in districts. Decentralisation is also seen as an opportunity to merge complementary components from the decentralisation, transport and water programmes, at the same time phasing out direct support to feeder roads and water supplies. Denmark provides financial support to small projects by Ghanaian civil society organisations aiming at supporting democratisation and human rights. Denmark is also noted by development partners for its prominent anti-corruption role<sup>40</sup> which has featured in discussions of general budget support and other areas of basket funding. The team felt that Denmark's stance on anti-corruption could be developed further, building on the more proactive interventions<sup>41</sup> that go beyond dialogue with development partners.

### ***Promoting ownership, alignment and harmonisation***

The Danish programme endeavours to promote Ghanaian ownership through better alignment and harmonisation, in line with the principles of the Paris Declaration on Aid Effectiveness (OECD, 2005a). The country strategy sets out targets and indicators for enhancing alignment and harmonisation. For example, to achieve the target of reducing transaction costs by integrating assistance within government budgets, 80% of all Danish support will be “on-budget” in 2009. The strategy has five such targets. The choice of sectors for Danish support is aligned with GPRS II, which was also recommended in an assessment by Ghanaian consultants. Danish policy is to deliver efficient and effective aid through results-oriented interventions. The team also noted that Danish aid was well regarded for its predictability. There has been a trend away from projects and towards providing assistance through sector approaches and general budget support. It is involved in pool funds with other donors, for instance in the private sector development area. Denmark has also been promoting joint analysis, for example in the health sector, and has been involved in formulating a Ghana Joint Assistance Strategy. Denmark is leading the thematic group on decentralisation.

However, further action is needed to strengthen the alignment and harmonisation objective. There are some left-over projects, notably a major roads project, but this is being phased out in 2007. The private sector activities consist of sector support and a Business to Business Programme (B2B), which consists mainly of technology transfer to small and medium enterprises.<sup>42</sup> This programme retains aid tying to Danish businesses, to encourage Danish companies to become involved in Ghana.

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40. The issue of corruption was brought up with the President by the Minister for Development Co-operation when she visited Ghana in 2005, and on numerous other occasions by the Ambassador and Embassy staff.

41. Sector support for the Commission for Human Rights and Administrative Justice and project support for the Ghanaian Publishers Association had positive anti-corruption outcomes in the public sector.

42. The programme appears to retain some elements of the previous programme that had been criticised by researchers. See P. Kragelund 2004 “The Embedded Recipient and the Disembedded Donor: Private-Sector Development Aid in Ghana” *Forum for Development Studies 4*; Norwegian Institute of International Affairs.

While Denmark's agreement with Ghana stresses sustainability in various places, exit strategies in several sectors remain problematic. In the private sector, the SPEED II programme is not sustainable in its current form, and the embassy stressed that this institution was a temporary support at the wholesale level to enable service providers to support the retail level. Nonetheless, it remains to be seen whether the joint private sector activities will create an alternative institutional arrangement for what is ostensibly a Danish programme. In the case of water supplies and feeder roads, the intention is to merge both activities into the decentralisation programme when these activities are transferred to district control. Denmark will support capacity development of district staff to plan, implement and monitor road works and to handle funds transferred to the district level. The team heard a great deal of scepticism about central government's willingness to devolve power and authority, especially the transfer of funds, despite the policy pronouncements, so we remained sceptical about the Danish exit strategy in this case.

The increasing reliance on sector approaches and general budget support has thrown up several issues for many donors: How are cross-cutting themes to be integrated? How is civil society to be integrated into government-led programmes? Do services sufficiently reach the poor at grass roots level? Are data available on poverty trends? How are results to be attributed to Danish inputs? Some of these were issues raised in the assessment of the previous strategy. According to the embassy, the indicators and targets in the sector strategies have resolved the integration of cross-cutting issues to some extent, but we heard from other sources that this remains an issue for all donors. In the case of civil society exclusion from sector activities, Denmark's leading role in decentralisation puts it in a position to encourage the involvement of civil society in holding government to account by tracking results at the district and community levels.<sup>43</sup> Denmark has decided that it is not necessary to attribute overall results in Ghana to Danish inputs; it is enough to track the results of the programmes as a whole, and this has been agreed by the NAO.

### *Policy coherence*

There are potential areas of policy incoherence in the Danish private sector presence in Ghana, on which the embassy might be expected to report back to Copenhagen, although there is no obligation to report back on private sector activities. Although there is not a large Danish presence in the private sector, there are some Danish companies trading in Ghana and other companies involved in the delivery of aid. Contacts with these Danish companies can be beneficial in opening up market opportunities for Ghanaian companies, as was the case with Athena Foods which entered into a joint venture with a Danish company.<sup>44</sup> Another such company is Arla Products, the Swedish/Danish dairy company, which exports to Ghana. In 2003, Arla was the largest recipient in Denmark of EU subsidies and received DKK 1.3 billion.<sup>45</sup> The company is a co-operative society, and therefore the subsidies are shared between the farmers who own a share of the company. There appears to have been little controversy so far about the effects on the Ghanaian dairy industry of subsidised dairy imports, unlike the example of the impact of EU subsidies on the Ghanaian chicken industry. The chicken case was reported in the Danish media, even though this did not implicate Danish companies directly, so an analysis of the dairy case might provide an interesting comparison.

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43. Recently a subgroup has been established under the decentralisation group to work on the engagement of civil society in decentralisation. The subgroup is chaired by USAID.

44. Leigh Anne Yow (2002) "Success in adding value: The case of the agro-processing sector in Ghana, West Africa. Carolina Papers, International Development Number 5, Spring 2002

45. See Weekendavisen, April 8, 2005 Tre kroner kiloet (Three kroner per kilo) by Kaj Lund Sørensen, a member of MS.  
([www.takeparttoo.org/index.php?option=com\\_content&task=view&id=181&Itemid=71](http://www.takeparttoo.org/index.php?option=com_content&task=view&id=181&Itemid=71))

## Organisation and management

The Royal Danish Embassy is responsible for a **broad remit of activities**, including political relations, commercial relations (trade and investments), consular issues, in addition to development assistance. This allows development to be considered in a broad framework. This broad remit reflects the responsibilities of the MFA in Denmark. Although the embassy focuses on Ghana, the staff also have some regional responsibilities when Denmark is not represented at full embassy level. This broad remit potentially allows the staff to consider various possible impacts on development in Ghana beyond aid. We understand that the staff have responsibility, for example, for reporting on trade which is likely to become a more important channel for Ghanaian development than aid in the future.

### *Staffing*

For development co-operation, there are 17 positions for professionals, with a mixture of Danish and local staff, officials and contract staff, men and women. Of these positions, 9 are posted from Denmark, and 8 are locally-engaged staff. These staff have various skills and expertise and take responsibilities in different sectors. Danish staff are normally higher in the hierarchy, partly because of the need to communicate with Copenhagen. At the time of the visit, two of the local positions were vacant. There is a general problem for all donors in attracting and retaining local professional staff; there are attractive opportunities for Ghanaian professionals in the private sector and overseas. There is a good gender balance among Danish staff.

### *A decentralised programme*

The Danish system has been **decentralised** since 1 September 2003 and this has increased the authority of the desk officers in the field. The field staff are now responsible for preparing and planning activities, managing the overall aid budget once approved, monitoring progress, and reporting on results. This has clearly improved the effectiveness of Danish aid. Denmark is generally considered a good team player. Consultations with local officials and partners are recognised for their openness. Decision-making is fast, without having to gain approval from Copenhagen. Danish aid is also considered flexible; the embassy can respond quickly to events and changes of plan as they arise.

There have been several challenges arising from decentralisation:

- i) While there were some savings in transaction costs upstream (less need to seek approvals) there have been increases elsewhere (reporting on results). Virtually everyone who had contact with the Danish system mentioned the administrative burden of continual reporting, but did not know what the reports were used for.
- ii) Decentralisation did not result in major transfers of staff to the field and there are deficits in some important areas of expertise. For example, the Transport Economist has to take on responsibility for macro-economics. In many sectors, such deficits might be met by technical backup from Copenhagen, but in some sectors (*e.g.* the private sector) the numbers of technical staff in headquarters is insufficient to meet all the demands of the different embassies. There are different options for resolving these issues, apart from recruiting more staff. For example, many other development partners have senior economists and other specialists, so the promotion of joint analysis and burden sharing could result in more effectiveness. Field staff could also be trained jointly with other development partners.
- iii) Decentralisation poses challenges for maintaining institutional memory and learning from results within the organisation. We understand that field staff can access information via the

Intranet, and that technical advisers hold meetings regionally or at headquarters. We also understand that decentralisation came about with various management guidelines. We would like to know more about the use of the different reports from embassy staff that take up so much time. How do these feed into the various learning processes?

One of the benefits of decentralisation concerns budget management. The country strategy sets out the guidelines for sectoral distributions and during our visit we were able to check on the actual distributions (Table D.2). Variations on the distributions are arranged at local level, depending on the sector situation. Instructions to reduce funding on small projects have been followed and the roads sector is being phased out. As a result of such variations, the embassy expects to achieve 100% disbursement.

**Table D.2. Sector allocation**

<b>Sector – Percentage allocations</b>	<b>2004</b>	<b>2006</b>
Health	20	24
Water and sanitation	20	23
Roads	30	29
Business sector	12	9
Good governance and budget support	12	14
Other	6	1
<b>Total</b>	<b>100</b>	<b>100</b>

### *Relationship of Danish NGOs with the Danish Aid Programme in Ghana*

Some Danish NGOs have **framework agreements** with the Danish government to provide assistance in various programme countries, including Ghana. The first Danish NGO in Ghana started its work in 1958. The team met some of the current Danish NGOs working in the country (notably CARE Denmark and IBIS). The funding for these NGO programmes is not shown in the strategy document, but their programmes are complementary as the NGO programmes tend to be in community social services (health, education, and water supplies). Their assistance is expected to reach areas where official funding might not reach. With official funding of these NGOs as high as 80-90% of their income, some of these organisations appear to be more GO than NGO, and they are vulnerable to fluctuations in official funding. We understand that the Danish government, when first elected, wanted to send a signal to Danish NGOs, including some working in Ghana, that they could not rely on official funding indefinitely. The government therefore reduced funding to NGOs, and some Danish NGOs could no longer operate. One Danish NGO in Ghana was similarly affected by the reduction of official funding for its central administrative costs, but was able to continue operating in Ghana through project funds, which provided 100% support from official Danish funds. The NGOs we met maintain good relations with the embassy and discuss issues arising in the field. We also note that other Danish NGOs are present in Ghana. For example, the Ghana Friendship Groups engage in small business and microfinance activities in the poor rural Northern Region.

### Appendix: Ghana's Statistical Indicators

Indicators	Value
Total population 2003 (millions)	21.2
Population under age 15 in 2003 (percentage)	40
Urban population (percentage)	45
GNI per capita in 2004 (USD)	380
Human development rank (out of 177)	138
Population below \$1 per day during 1990-2003 (percentage)	45
Population below \$2 per day during 1990-2003 (percentage)	78
Population undernourished in 2000-02 (percentage)	13
Life expectancy at birth 2000-05 (years)	57
Under-five mortality rate 2000 (per 1,000 live births)	95
Maternal mortality rate 2000 (per 100,000 live births)	540
Adult literacy rate 2003 (percentage at age 15 and above)	54
Female adult literacy rate 2003 (percentage at age 15 and above)	45
Net primary enrolment ratio 2002-03 (percentage)	59
Net female primary school enrolment ratio 2000-2005 (percentage)	65
Net secondary enrolment ratio 2002-03 (percentage)	36
Children reaching grade 5 2001-02 (percentage of grade 1 students)	63
Population using improved drinking water sources, 2004, total (percentage)	75
Population using improved drinking water sources, 2004, urban (percentage)	88
Population using improved drinking water sources, 2004, rural (percentage)	64
Net ODA receipts 2004 (USD millions)	1 358
Net ODA received/GNI 2004 (percentage)	16
Refugees hosted in country 2004 (thousands)	44

*Sources:*

UNDP (2005) *Human Development Report*, United Nations Development programme, New York.

UNICEF (n/d) [http://www.unicef.org/infobycountry/ghana\\_statistics.html](http://www.unicef.org/infobycountry/ghana_statistics.html) (accessed Jan 2007).

OECD/DAC (2006) *Development Co-operation Report.*, OECD Paris.

## *Annex E*

### **Field Visit to Nepal**

As part of the Peer Review of Denmark, a team of examiners visited Nepal from 5 to 9 February 2007 to review Danish aid. In this field visit, the team met with staff from the Danish Embassy and their various partners: government officials in ministries, representatives of Nepalese Civil Society organisations, and multilateral and bilateral donor organisations. The team also visited peace-building and education projects in Western Nepal. This annex is an account of the visit, and combines further study of documentation on the situation in Nepal with the team's observations.

#### **Development context in Nepal**

##### *A country in transition after a decade of civil war*

Nepal is one of the poorest countries in South Asia with a per capita GDP of USD 270. Since November 2006, it has begun a peace process and is trying to recover from a decade of civil war. The principal challenge now is to build a basis for lasting peace which requires, along with the disarmament and reintegration of former combatants, restoring democracy and directly addressing the causes of the conflict. The latter implies a political and economic development process to reduce poverty and social exclusion. Nepal faces important human rights issues in this challenging period of transition.

The ten-year political struggle between the Nepalese government and a Maoist rebel movement has undermined past economic progress and resulted in widespread human rights abuses and approximately 13 000 deaths and 100 000 displaced people. Poverty, social inequality, poor governance and discrimination fuelled the conflict. Over the last decade the Maoist movement has come to effectively control the majority of the countryside. At the same time, the Nepalese monarchy has regularly compromised the development of democracy and the rule of law. The political crisis reached a peak in February 2005, when King Gyanendra took over power and assumed direct rule. The resistance from the political parties – the Seven Party Alliance (SPA) and their demand for restoring democracy, backed by the international community, culminated in large-scale demonstrations in April 2006, which eventually led the King to hand over power to the SPA. The parliament was reinstated, a new interim SPA government was appointed and peace negotiations started with the Maoists. The SPA and Communist Party of Nepal (Maoist) (CPN-M) signed a Comprehensive Peace Accord in November 2006 (Box 12).

In January 2007, following a Security Council decision, a UN political mission was established in Nepal to deliver the assistance requested by the Nepalese parties to facilitate the peace process and the conduct of Constituent Assembly election.<sup>46</sup> As per the peace agreement, the CPN-M's entered into the interim parliament on 15 January 2007. The disarmament process started and preparation for elections is underway.

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46. In May 2005, the Office of the High Commissioner for Human Rights was established, and since August 2006, a Representative of the UN SG has been appointed to Nepal.

### Box 12. Implementing the Comprehensive Peace Accord: challenges ahead

The Peace accord commits parties to finalising and promulgating an interim constitution, forming an interim assembly and establishing an interim government. It also incorporates basic arrangements for the cantonments of the Maoist army combatants, the confinement of the Nepalese army to its barracks and the storage of the arms and munitions on both sides. The Interim Council of Ministers was charged with taking action to democratising the Nepal Army and establishing a special committee to supervise, integrate and rehabilitate Maoist combatants. The parties also agreed to constitute a National Peace and Rehabilitation Commission, as well as a Truth and Reconciliation Commission to probe into violations of human rights and crimes against humanity in the course of the conflict. Commitments to end all forms of feudalism, promote greater inclusion of marginalised groups and prepare for the socio-economic transformation of Nepal are central to the accord.

The magnitude of the tasks ahead and the potential threats to the peace process must not be underestimated. During the conflict, normal government functions ceased across wide areas of Nepal. Close to 70% of village-level administrators were displaced. If the government fails to restore local government, there will be a clear lack of equally-distributed democratic space for all political forces in advance of the election. Rising crime rates linked to the prevailing security vacuum are also a serious concern. Unrest, whether fuelled by former Maoist combatants or by marginalised groups feeling excluded from the peace process, could mar the election and post-election climate.

While all parties have committed themselves to moving forward rapidly with the Constituent Assembly election, the operational challenges of conducting credible elections by mid-June 2007 are considerable given the lack of government presence in the countryside. Similarly, a failure to provide public basic services to conflict-affected communities could result in dangerously unfulfilled expectations. In addition, if Nepal fails to meaningfully include traditionally marginalised groups in the peace process, the country will leave some of the key underlying causes of the conflict unaddressed.

Source : Report of the UNSG, UNSC, 9 January 2007

### *Donor community: a fragmented response despite a shared commitment to aid effectiveness*

Nepal's future remains unpredictable. In this situation, a number of policies and best practices offer internationally codified guidance for development partners. These include the *Principles for good engagement in Fragile States* (OECD, 2006), the *DAC Handbook on Security System Reform* (OECD, 2007), and the DAC guidelines *on Security System Reform and Governance* (OECD, 2005) and on *Helping to Prevent Violent Conflict* (OECD, 2001). Since the King's takeover in February 2005, the donor community has tried to respond to the specific situation. In addition to regular meetings in Kathmandu, two headquarter-level meetings were organised in London in March and November 2005 to co-ordinate the response to the political situation. The November meeting called for a peace process and reaffirmed the willingness of donors to provide support to a democratic and inclusive peace process.<sup>47</sup> A third meeting will take place in London in early March 2007 focusing on donor support to the peace process and on aid effectiveness.

However, as Nepalese stakeholders in the peace process have not asked for international third party mediation, international involvement in the peace process has been mostly low-profile and supportive. There has been a lack of consensus within the donor community about how to engage with the present interim and weakly legitimate government and this has not helped to develop a proactive approach building on analysis of different scenarios. As a result, and despite a multiplicity of co-ordination mechanisms regrouping different circles of donors but mostly limited to exchange of information, the donor community reacted – and continues to react - in a rather ad hoc way to the

47. Senior officials from ten partner countries plus the European Union attended. Representatives of the World Bank, IMF and Asia Development Bank contributed to part of the meeting via video-link from Kathmandu.

evolving situation in Nepal. As an illustration, following the King's coup, concerted pressures from the donors led the government to accept Basic Operating Guidelines (BOG) for development assistance in July 2005. In 2006, in order to accompany the peace process, the Utstein group developed common principles and priorities for an effective donor support to the Nepalese peace process. The donor community should build on these positive, co-ordinated efforts to develop a forward-looking joint analysis of upcoming challenges in Nepal.

Since 2002, the government's involvement in promoting aid effectiveness has resulted in a technically sound PRSP complemented by a Medium Term Expenditure Framework and a Poverty Monitoring and Analysis System. However, the constraints of the political situation have so far undermined PRSP implementation. The country now faces a dilemma: the government, which has signed up to the Paris Declaration, does not want or is not able to take the lead, while the Utstein group of donors, and Denmark in particular, wants it to be in the driver's seat. It is necessary to consider what can be expected from a government in such a situation and what should be considered as a realistic response, taking into account the time pressure and urgent need to fulfil the peace process commitments.

## **Danish aid programme**

### ***Historical background***

Nepal was chosen as a programme country in 1989, based on the widespread poverty in the country and its emerging democratisation process. A total of DKK 2.3 billion (USD 414 million) has been provided by Denmark as development assistance to Nepal between 1989 and 2004. Assistance was first provided to education, with an emphasis on basic, primary, and then secondary education; and environment, with support focused on renewable energy and natural resource management. During the 1990's, Danish assistance was extended to support the democratisation process taking place in Nepal, with emphasis on human rights, decentralisation and governance.

In February 2005, Denmark reacted to the King's takeover by suspending part of the assistance programme (the Revenue Administration Support project) and announcing i) the suspension of preparations for a new integrated environment programme and ii) a continuous review of the bilateral programme to ensure activities continued to be implemented as agreed. The finalisation of the new country strategy was suspended and an interim strategy for 2006/07 prepared. As a consequence, the bilateral country framework for 2005 and 2006 was reduced from DKK 150 million (USD 27 million) to DKK 125 million (USD 22.5 million) and a specific plan for adjusting the development co-operation programme was established. However, Denmark decided to stay engaged in Nepal, insisting on the interests of the Nepalese people and maintaining firm advocacy for democracy, human rights and rule of law. Over this difficult period, Denmark worked in close co-operation with other like-minded donors, especially around the BOG and support to education and human rights sectors.

### ***The current aid programme***

Denmark contributed ODA of about USD 37 million (2003-04 average), which makes Denmark the fifth largest donor (fourth largest bilateral) in Nepal. The six major external partners are the World Bank, Japan, the UK, Germany, Denmark and USA. This makes Nepal a medium-size partner for Denmark, ranking twelfth out of 15 Danish programme countries in 2005.

In June 2006 the Danish Minister for Development Co-operation approved an *Interim strategy for the Danish Development Assistance to Nepal 2006-07* to cover the period of great political instability. This strategy will be reviewed in 2007, before the Finance Bill 2008 is prepared to take account of recent developments. Denmark's medium-term strategic objectives in Nepal are i) to facilitate and

promote the development of a democratic political environment, respect for human rights and rule of law, and a peaceful resolution of the armed conflict; and ii) to contribute to poverty reduction in a conflict-sensitive manner through economic growth and improvements in service delivery for the poorest segments of the population.

While insisting on the flexibility which will be required to adjust to political developments in Nepal, Denmark will focus its support on i) the peace process; ii) the democratic process and the democratic forces in Nepal; and iii) assistance to the Nepalese people through non-state and state actors.

### *Sector allocation*

The Danish programme is adequately focused on three sectors: education, rural energy, and human rights and governance, with programmes designed for a five-year period. The most important programme is the Education Programme 2003 to 2009, which accounts for nearly half the Danish aid volume and covers both primary and secondary levels of education. It supports primary and secondary schools together with other donors to implement the national education programme, with a special emphasis on education for girls and marginalised groups.

The second biggest programme in terms of volume is the Rural Energy Programme 1999 to 2007. It supports the provision of low-cost, alternative energy solutions for the poorer segments of the population living in rural areas. The Energy Sector Assistance Programme (ESAP) is implemented in a private-public partnership model and is demand-driven by the rural population. Under its three components, the programme provides i) technical assistance to the Alternative Energy Promotion Centre (AEPIC), a semi-public entity which provides subsidies to facilitate access to energy to rural households; ii) technology support; and iii) funding to the Rural Energy Funds for subsidies. About 100 local NGOs are involved together with 50 to 60 certified private companies. This programme has had a positive impact on the environment and on gender equity.

The Danida Human Rights and Governance Programme 2003 to 2008 (HUGOU) aims to help establish a functional and inclusive democracy based on respect for human rights. It covers a wide range of issues through its seven components: media, human rights organisations, social inclusion, justice, anti-corruption, local governance, and election and democratic process. It also includes an additional cross-cutting strategy on conflict transformation.

**Table E.1. Danish development assistance to Nepal 2003 to 2007**  
in million DKK

<b>Sector</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007*</b>
Education	118	69	65	106	85
Rural energy	25	26	29	15	40
Human rights and good governance	16	14	18	16	29
Environment	55	35	4	2	1
Peace process					25
Other	7	7	10	10	10
<b>Expenditure under country frame</b>	<b>221</b>	<b>151</b>	<b>126</b>	<b>149</b>	<b>190</b>
Private sector programme	2	3	2	2	0
Advisory services, etc	40	51	15	3	5
<b>Total</b>	<b>263</b>	<b>205</b>	<b>143</b>	<b>154</b>	<b>195</b>

\* Budget figures

Source: Danish Embassy.

In addition, Denmark is supporting the peace process through both bilateral and multilateral channels. On the multilateral side, Denmark pledged USD 1 million to support the UN peace mission in Nepal in December 2006, through the trust fund set up to finance the UN mission, and has also offered to provide competent staff to support the peace process. Denmark is also an important contributor to the OCHA consolidated appeal for Nepal. On a bilateral basis, Denmark has approved DKK 50 million (USD 9 million) to support the peace process in Nepal. The support will be given to the Government of Nepal through the Nepal Peace Trust Fund, the UN Peace Fund, international NGOs and local NGOs. The Danish support will focus on the following areas: electoral process, establishment of strong government structures to support the peace process, rehabilitation and inclusion of marginalised population groups, and rehabilitation and reintegration of combatants and victims of the conflict. This support will be designed in close co-operation with other like-minded donors. The related MOU for the Nepal Peace Trust Fund has been approved by five donors, including Denmark, and the Nepalese Government. Bilateral agreements are now to be established.

The Education and Energy sector programmes benefit from the experience gained through Denmark's long-term involvement in these areas in Nepal and are showing positive results. Danish co-operation in these sectors is seen as instrumental by the other stakeholders. In particular, the ESAP programme was able to deliver services outside district towns during the insurgency, especially through NGOs working as service providers. Denmark is also seen by other donors as playing a constructive and proactive role in the governance and human rights area.

An asset for Danida is its flexibility and ability to adjust the programme and respond to the evolving situation. An illustration of this flexibility was the quick response provided to the OHCHR request when it started its operation in Nepal: Denmark was one of the first donors to fund the operation and immediately provided 32 vehicles, which enabled OHCHR to become readily operational. Another example was the December 2006 pledge to the UN to support the peace process as well as the immediate procurement of 160 computers and a full monitoring system for the election process. On the bilateral side, the adjustment made to the programme following the King's takeover in February 2005 also illustrates Denmark's flexibility.

Denmark has also been able to develop positive synergy between its bilateral and multilateral channels, with an effective coordination with Geneva to get the OHCHR involved in Nepal. Its integrated system, with development co-operation managed within the embassy is an asset, especially in a sensitive context like Nepal. The combined political and development approach has allowed Denmark to be more vocal on key issues such as human rights. Another example is the case of the Buthanese refugees, with Denmark's Ambassador in Nepal being a significant player in support of the core group in Geneva in charge of this issue.

#### *Suggested points for attention*

Denmark could reinforce the linkages between its different programmes in Nepal. Further synergies could be developed between education and governance programmes. Anti-corruption and conflict transformation, which are components of the human rights and governance programme, could be considered as cross-cutting to the overall Danish programme, not only to the governance component. The human rights and good governance programme could benefit from fewer components and increased attention for governance needs in the public sector.

In conjunction with the donor community, Denmark should consider the need to engage more in the productive sector and development of natural resources, which will be crucial to reduce poverty. Denmark could also consider how it could extend its engagement in the energy sector, mostly focused so far on the delivery aspect, to more directly supporting productive activities. It will also need to

consider how to reach the most marginalised and poorest populations within its private sector-oriented approach.

### **Promoting ownership, alignment and harmonisation**

#### *An active advocate of the aid effectiveness principles*

Denmark is seen as an active, dynamic and reliable partner in Nepal. It is a strong advocate of ownership and is able to take risks in the political process. It is also a strong supporter of alignment principles and is actively promoting harmonisation (Box 13). For instance, together with GTZ and Norway, in 2004 it developed a common code of conduct for the development partners involved in rural electrification in Nepal so as to align donor support to national procedures.<sup>48</sup>

#### **Box 13. Three different aid modalities for each programme**

Like other donors in the context of Nepal, Denmark provides aid through state and non-state actors. Its support to Education and Energy takes place within sector programmes while the support to human rights and governance is delivered through a specific implementation unit.

In the education sector, Denmark supports the “Education for All” programme (primary level) and Secondary Education Support Programme. Eighty percent of Danish assistance in this sector is channeled to the government through a joint donor financing arrangement (JFA) signed between the government of Nepal and five donors (seven from 2007 onwards). The signatories conduct semi-annual meetings to discuss overall progress and joint reviews of the Annual Strategic implementation Plan, Annual Work Plan and Budget presented by the Ministry of Education and Sports for the next fiscal year. The audit report and the findings of an external technical review of school education are also discussed in the missions. Twenty per cent of Danish assistance is direct funding for capacity building. This takes the form of an education advisory team headed by a Chief Technical Adviser who together with two other Danish advisers assists the Ministry and Department of Education with planning, budgeting and reporting. The steering committee for direct funding approves quarterly revisions within the agreed framework between the Ministry of Education and Sports and the Danish Embassy.

In the energy sector, the programme is implemented by ESAP in close contact with the Alternative Energy Promotion Centre (AEPC), a semi-autonomous public entity. In addition to the Danish adviser to the programme, ESAP has 25 Nepalese employees to provide technical assistance in three support components. Each component manager is responsible both to AEPC and to the Chief Adviser of ESAP. Support is provided through ESAP with a basket funding mechanism for investment subsidy under the Rural Energy Fund and a parallel technical assistance basket fund. Donors (presently Denmark and Norway) and government (which contributes 10% of the total funding) pool their funds in these two baskets.

The human rights and governance programme (HUGOU) is managed by an independent office with 15 professional staff, working closely with the embassy, but independent of any government entity. It has its own control and monitoring system with a programme advisory unit with two finance officers in charge of monitoring and auditing the programme.

Denmark has developed a proactive approach to the donor community and is seen as a strong and constructive player by donors. Denmark worked in close co-operation with other like-minded donors, around the BOG and in support of the sectors in which it is involved. Denmark has also taken an active role in formulating the EU policy for Nepal. It has developed joint projects in different areas under joint financing arrangements. Denmark seeks involvement from other donors when necessary, as was the case with Norway in the HUGOU programme on human rights and the ESAP programme on energy. Finally, Denmark is upfront in taking action against corruption.

48. The code of conduct encouraged joint reviews, joint researches, planning and studies and a co-ordinated use of technical assistance. However it has not been signed and is therefore yet to be implemented.

### ***Capacity development and technical co-operation***

Denmark has taken a positive approach to capacity development in a number of areas, such as the alternative energy promotion centre (AEPC). Technical assistance has decreased and redirected towards capacity-strengthening. The number of Danida advisers has decreased from the equivalent of 18 years work for one person in 2003 to 7 years in 2007, and the related cost from DKK 15 million to 9 million. Denmark has also made efforts to further align its technical assistance. For instance, in the education sector, the number of Danida technical assistants has decreased from four to three over the last five years. While the education advisory team was previously a separate unit, the advisers are now part of the ministry and their role is well established within the ministry structure. However, there is still room to further align. One out of the three technical assistants is still not fully integrated in the ministry, and functions as a small separate office dedicated to the management of the pooled fund. The ministry would like to see this management unit gradually integrated in the ministry structure. Equally, even though the ministry was part of the recruitment process, the advisers were recruited following Danish procedures. Finally, with technical assistance also provided by other donors, an approach favouring a harmonised and co-ordinated use of technical assistance could be developed.

The human rights and governance programme is mainly focused on building civil society capacity. In a context where it is crucial to reinforce the state capacity to deliver basic social services all over the country, including in remote areas, Denmark will need to think about its approach to build capacity of public administration, both at local and national levels, in addition to its efforts to build the capacity of civil society organisations' (CSOs). It could consider further developing micro-macro linkages in this respect. The institutional arrangement for the programme, which is run by an independent unit, may carry the risk of loose links with the Nepali system and therefore weak ownership.

### ***The challenge of balancing principles and pragmatism in a complex situation***

Denmark tends to be cautious about taking risks because it primarily wants to show results to its constituencies. This is particularly true for financial management. In its different programmes, Denmark has put in place arrangements to ensure funds are adequately spent: with respect to education, one technical assistant is dedicated to monitoring the finances of the pooled fund.<sup>49</sup> In the energy sector (ESAP), Denmark has pushed to have AEPC, previously settled within the MFA, established as a semi-autonomous entity to avoid political pressures and have a proper audit system. The funds are released with joint signatures from the Executive Director of AEPC and the donor designated person, presently the Chief Adviser of ESAP, in order to avoid misuse of funds. In the HUGOU programme, a programme advisory unit is in charge of monitoring and auditing the programme. Finally, while Danida provides extensive support to projects implemented by various CSOs, Danish concern over financial accountability may also limit its flexibility towards these partners.

Being cautious about taking risks may stifle learning, innovation and initiative, which compromises the ability to improve performance and adapt to evolving situations. It may also contradict the alignment principle. Denmark should consider the trade-off between the need to show results in order to reinforce public and political support and the need to be innovative and remain in line with its commitment to aid effectiveness.

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49. Denmark also wants to allocate 20% of funding directly to advisory capacity, outside the pooled fund.

***Other suggested points for attention***

*Harmonisation:* Denmark could use the opportunity of the preparation of its next strategy to collaborate with other development partners in developing a joint assistance strategy. This would require sharing further analytical capacity among donors, including Denmark's expertise in conflict transformation. With Denmark only involved as an implementer of delegated partnerships with Norway, it could explore the scope for other silent partnerships, including delegating implementation of a programme to another donor. Denmark could also consider - with other development partners - how to engage further with non-traditional donors (China, India).

*Exit strategies and aid predictability:* Denmark will need to consider longer-term exit strategies. Denmark is seen as a reliable partner partly because of its engagement over a long and predictable period of time. In this context, its exit from the environment sector in a six-month time, resulting from the fact that Danida's new Environment Programme was not approved in February 2005, was not seen by the other donors as very smooth.

*Missions in country:* Denmark should consider the right balance/trade-off between the need to build public awareness and political support in Denmark and the aid effectiveness principles, so as to avoid too many missions adding a burden to the partner country.

**Organisation and management*****An efficient organisation***

Core responsibilities of the Danish Embassy in Nepal are to i) maintain diplomatic relations with the government of Nepal; ii) follow the political, economical and commercial development in Nepal; and iii) administer Danish development assistance to Nepal. Its main tasks are to ensure an effective and efficient identification, preparation and implementation of Danish development assistance to Nepal following established policies and programmes.

Decentralisation is clearly an asset for Danish co-operation in Nepal, as is the integrated system, with development co-operation being an integral part of the embassy. Strong links are maintained with headquarters as well as with other decentralised multilateral offices, especially Geneva. Videoconferencing is a useful tool for this.

The programme also benefits from a clear organisational framework, precisely described in the embassy's organisational manual. This manual also outlines the general management of the Embassy; its communication principles and mechanisms, both internal (including relationship with Danida technical advisers) and external; the individual job descriptions for each staff member; and the principles and strategy for staff management and development. A series of annexes usefully complement the manual, with for instance a detailed description of the quality assurance process.

With 10 professional staff working on the aid programme (excluding Administration and Consular Affairs<sup>50</sup>), the embassy has enough resources to complete its responsibilities. This is the case partly because the particularly labour-intensive human rights and governance programme has been delegated to an external unit (HUGOU).

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50. The total number of staff working in the Embassy is 20, with 5 posted staff and 15 local employees.

***Points for attention***

The embassy should consider how, within the legal framework of the Danish MFA, it can improve the staff gender balance in the staff. It should also be cautious to maintain the right skill mix among staff and ensure continuity. The five local staff members benefit from good working conditions but apparently retain quite low profile positions, partly because of the need to communicate with Copenhagen. Denmark should consider how to provide local staff with opportunities for increasing their responsibilities. E-learning on Danida anti-corruption policy has been provided to each staff member.

With respect to programming and to the quality assurance system, Danida's planning system involves many different documents and processes, and includes for Nepal an additional interim strategy. The system may be further rationalised around one steering document. While the focus is mainly on monitoring activities, Denmark could do more to assess the results and impact of its aid, for instance on strengthening state and non state actors' capacity at local and national level.

### Appendix: Nepal's Statistical Indicators

Indicators	Value
Total population 2003 (millions)	26.1
Population under age 15 in 2003 (percentage)	40
Urban population (percentage)	15
GNI per capita in 2005 (USD)	270
Human development rank (out of 177)	136
Population below USD 1 per day during 1990-2003 (percentage)	38
Population below USD 2 per day during 1990-2003 (percentage)	82
Population undernourished in 2000-02 (percentage)	17
Life expectancy at birth 2000-05 (years)	61
Under-five mortality rate 2005 (per 1,000 live births)	74
Maternal mortality rate 2000 (per 100,000 live births)	740
Adult literacy rate 2003 (percentage at age 15 and above)	49
Female adult literacy rate 2003 (percentage at age 15 and above)	35
Net primary school enrolment/attendance (%) , 2000-2005	78
Net female primary school enrolment ratio 2000-2005 (percentage)	73
Children reaching grade 5 2001-02 (percentage of grade 1 students)	65
Population using improved drinking water sources, 2004, total (percentage)	90
Population using improved drinking water sources, 2004, urban (percentage)	96
Population using improved drinking water sources, 2004, rural (percentage)	89
Net ODA receipts 2004 (USD millions)	427
Net ODA received/GNI 2004 (percentage)	6.4
Refugees hosted in country 2004 (thousands)	124
Internally displaced people (thousands) 2004	100-150

Sources: UNDP (2005), *Human Development Report*; United Nations development Programme, New York.

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## Description of Key Terms

*The following brief descriptions of the main development co-operation terms used in this publication are provided for general background information.*<sup>51</sup>

**ASSOCIATED FINANCING:** The combination of official development assistance, whether grants or loans, with other official or private funds to form finance packages.

**AVERAGE COUNTRY EFFORT:** The unweighted average ODA/GNI ratio of DAC members, *i.e.* the average of the ratios themselves, not the ratio of total ODA to total GNI (cf. ODA/GNI ratio).

**DAC (DEVELOPMENT ASSISTANCE COMMITTEE):** The committee of the OECD which deals with development co-operation matters. A description of its aims and a list of its members are given at the front of this volume.

**DAC LIST OF ODA RECIPIENTS:** The DAC uses a List of ODA Recipients which it revises every three years. From 1 January 2005, the List is presented in the following categories (the word "countries" includes territories):

**LDCs:** Least Developed Countries. Group established by the United Nations. To be classified as an LDC, countries must fall below thresholds established for income, economic diversification and social development. The DAC List is updated immediately to reflect any change in the LDC group.

**Other LICs:** Other Low-Income Countries. Includes all non-LDC countries with per capita GNI USD 825 or less in 2004 (World Bank Atlas basis).

**LMICs:** Lower Middle-Income Countries, *i.e.* with GNI per capita (Atlas basis) between USD 826 and USD 3 255 in 2004. LDCs which are also LMICs are only shown as LDCs – not as LMICs.

**UMICs:** Upper Middle-Income Countries, *i.e.* with GNI per capita (Atlas basis) between USD 3 256 and USD 10 065 in 2004.

**DEBT REORGANISATION (ALSO RESTRUCTURING):** Any action officially agreed between creditor and debtor that alters the terms previously established for repayment. This may include forgiveness, or rescheduling or refinancing.

**DIRECT INVESTMENT:** Investment made to acquire or add to a lasting interest in an enterprise in a country on the DAC List of ODA Recipients. In practice it is recorded as the change in the net worth of a subsidiary in a recipient country to the parent company, as shown in the books of the latter.

**DISBURSEMENT:** The release of funds to, or the purchase of goods or services for a recipient; by extension, the amount thus spent. Disbursements may be recorded **gross** (the total amount disbursed over a given accounting period) or **net** (the gross amount less any repayments of loan principal or recoveries of grants received during the same period).

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51. For a full description of these terms, see the *Development Co-operation Report 2006*, Volume 8, No. 1.

**EXPORT CREDITS:** Loans for the purpose of trade and which are not represented by a negotiable instrument. They may be extended by the official or the private sector. If extended by the private sector, they may be supported by official guarantees.

**GRANTS:** Transfers made in cash, goods or services for which no repayment is required.

**GRANT ELEMENT:** Reflects the financial terms of a commitment: interest rate, maturity and grace period (interval to the first repayment of capital). It measures the concessionality of a loan, expressed as the percentage by which the present value of the expected stream of repayments falls short of the repayments that would have been generated at a given reference rate of interest. The reference rate is 10% in DAC statistics. This rate was selected as a proxy for the marginal efficiency of domestic investment, *i.e.* as an indication of the opportunity cost to the donor of making the funds available. Thus, the grant element is nil for a loan carrying an interest rate of 10%; it is 100% for a grant; and it lies between these two limits for a loan at less than 10% interest.

**LOANS:** Transfers for which repayment is required. Data on net loan flows include deductions for repayments of principal (but not payment of interest) on earlier loans.

**OFFICIAL DEVELOPMENT ASSISTANCE (ODA):** Grants or loans to countries and territories on the DAC List of ODA Recipients and multilateral agencies active that are undertaken by the official sector; with the promotion of economic development and welfare as the main objective; at concessional financial terms (if a loan, having a grant element of at least 25%).

**ODA/GNI RATIO:** To compare members' ODA efforts, it is useful to show them as a share of gross national income (GNI). "Total DAC" ODA/GNI is the sum of members' ODA divided by the sum of the GNI, *i.e.* the weighted ODA/GNI ratio of DAC members (cf. Average country effort).

**OTHER OFFICIAL FLOWS (OOF):** Developmentally relevant transactions by the official sector with countries on the DAC List of ODA Recipients which do not meet the conditions for eligibility as official development assistance.

**TECHNICAL CO-OPERATION:** Includes both a) grants to nationals of aid recipient countries receiving education or training at home or abroad, and b) payments to consultants, advisers and similar personnel as well as teachers and administrators serving in recipient countries.

**TIED AID:** Official grants or loans where procurement of the goods or services involved is limited to the donor country or to a group of countries which does not include substantially all aid recipient countries.

**VOLUME (real terms):** The flow data are expressed in United States dollars (USD). To give a truer idea of the volume of flows over time, some data are presented in constant prices and exchange rates, with a reference year specified. This means that adjustment has been made to cover both inflation in the donor's currency between the year in question and the reference year, and changes in the exchange rate between that currency and the United States dollar over the same period.

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