

Development Co-operation Review

DENMARK

Development Assistance Committee



ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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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.

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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 efforts of each member are critically examined approximately once every four years. Five or six programmes are examined annually. The OECD's Development Co-operation Directorate (DCD) 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. A recent innovation is to organise "joint assessments", in which the activities of several members are reviewed in a single field mission.

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 posed by DAC members led by the examiners. These questions are formulated by the Secretariat in association with the examiners. The main discussion points and operational policy recommendations emerging from the review meeting are set out in the Main Findings and Recommendations section of the publication.

ACRONYMS

CAP	Common Agricultural Policy (European Union)
DAC	Development Assistance Committee
DANCED	Danish Co-operation for Environment and Development
DI	Confederation of Danish Industries
DIPO	Danish Import Promotion Office
EBA	Everything but Arms
EC	European Community
EU	European Union
GNI	Gross national income
GNP	Gross national product
HIV/AIDS	Human Immune Deficiency Virus/Auto Immune Deficiency Syndrome
ICT	Information and Communication Technology
IFU	Industrialisation Fund
ILO	International Labour Organization
ITC	International Trade Centre
LDC	Least-Developed Countries
MFA	Ministry of Foreign Affairs
MIFRESTA*	Environment, Peace and Stability Facility
MRD	Human Rights and Democracy Framework
NATO	North Atlantic Treaty Organisation
NGO	Non-Governmental Organisation
ODA	Official Development Assistance
OSCE	Organisation for Security and Co-operation in Europe
PRS	Poverty Reduction Strategies
PRSP	Poverty Reduction Strategy Paper
PSD	Private Sector Development Programme
SPS	Sector Programme Support
TSA	Technical Advisory Services

UNAIDS	Joint United Nations Programme on HIV/AIDS
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organisation
UNFPA	United Nations Population Fund
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
UNIDO	United National Industrial Development Organisation
UNRWA	United Nations Relief and Works Agency
WFP	World Food Programme
WHO	World Health Organisation
WTO	World Trade Organisation

* Denotes acronym in original language.

Exchange rates (DKK per USD) were:

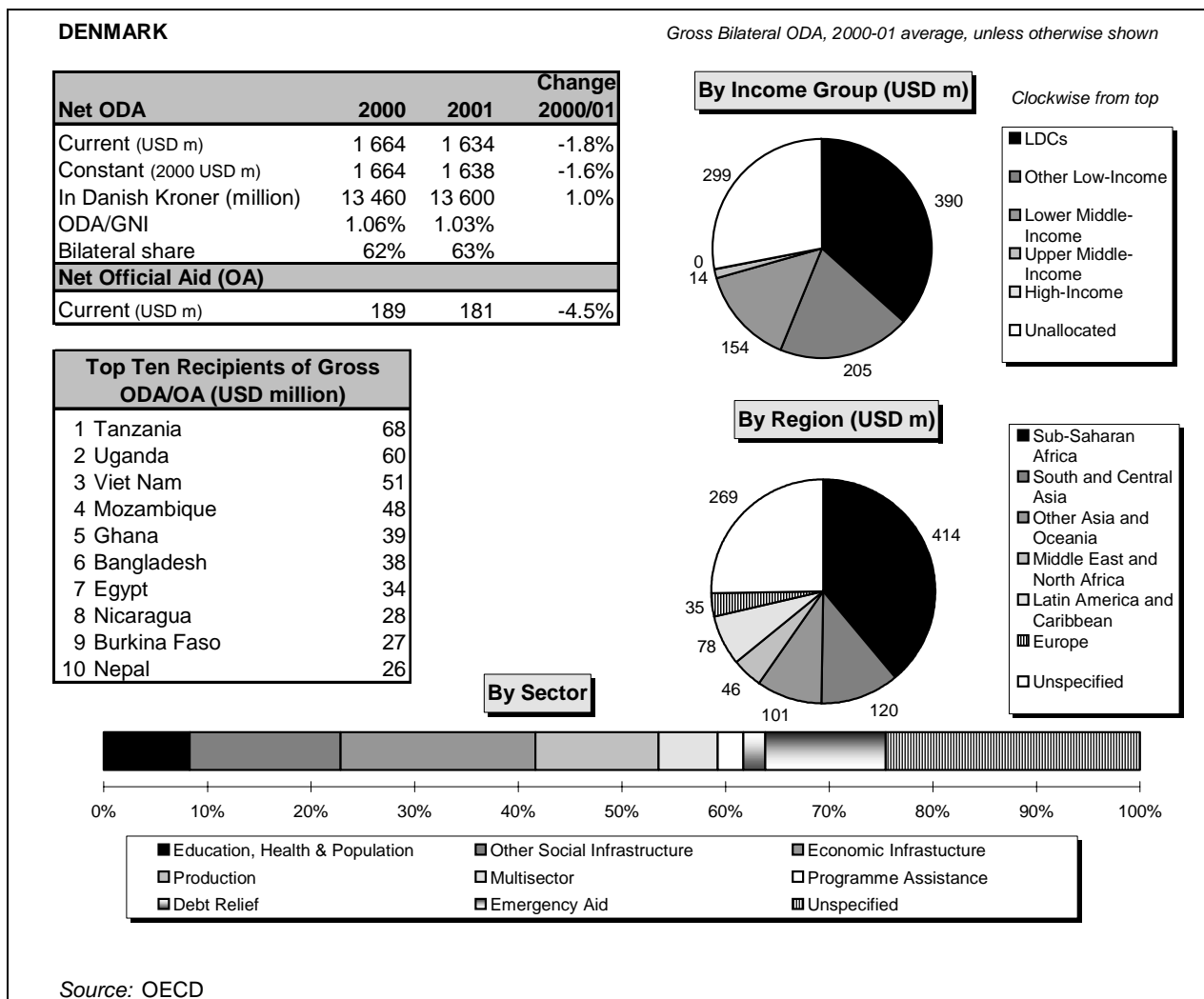
2000	2001	2002
8.088	8.3208	7.8843

Signs used:

()	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

Denmark's Aid at a glance



Special Note

Ministry of Foreign Affairs staff commonly use the name "Danida" to represent Denmark's development co-operation, which accounts for 90% of the programme of activities of the South Group of the MFA. For convenience, this report will refer to "Danida" in this manner.

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DAC'S MAIN FINDINGS AND RECOMMENDATIONS

Denmark has frequently been recognised within the Development Assistance Committee (DAC) for the generosity of its aid and for its innovations in such leading development co-operation policy and management areas as partnership, poverty reduction, sector approaches and evaluation. Its operational focus on a small number of priority countries and a substantive concentration on a maximum of four sectors per country make Denmark's bilateral programmes among the more strategically framed in the DAC. This is matched on the multilateral side by an active engagement with a small number of priority institutions. Despite its relatively small economic size, it was the ninth largest DAC donor in 2001, with net Official Development Assistance (ODA) of USD 1.6 billion. This represented 1.03% of its Gross National Income (GNI), the highest ODA/GNI ratio among the DAC's 22 members and significantly above the average country effort of 0.40%. According to preliminary data, Denmark maintained that position in 2002. It has been the most generous donor within the DAC since 1995.

Denmark is proud of the heritage of leadership that it has provided within the international donor community over the last four decades, and has enjoyed consistent public and political support for its development co-operation. However, the 2003 Peer Review took place against the backdrop of a marked shift in the priority accorded to development co-operation by the new coalition government formed after the elections in November 2001. With a political programme that sought to reduce the size of the Danish bureaucracy and to improve its efficiency, the government implemented some of the most significant reforms in development co-operation seen in Denmark for more than a decade. Some major elements of these reforms and the manner in which they were introduced are perceived by some key stakeholders to represent a discontinuity in the Danish aid tradition and a lessening of the strong political priority hitherto given to development co-operation. The government's position is that the basic objectives remain the same, that Danish aid volume will stay firmly above 0.7% of GNI, and that the reforms are aimed at promoting greater efficiency and focusing of aid, in a manner that is adapted to the evolving international development agenda. In the context of a second wave of broader reforms by the new government, the future direction of Danish aid is now being discussed within the coalition government. If, as is to be hoped, this leads to a five-year strategy (2004-2008) and budget proposal later this year, then the reform process might be seen to have laid the foundation for a new political consensus on Danish aid volumes and policies.

Overall framework and new orientations

Maintaining the momentum of development co-operation leadership

Major reforms in Danish development co-operation enacted in early 2002 included a 10% reduction in the volume of ODA, with reductions in funding for Danish NGOs and some international organisations, a reduction in the number of priority countries from 18 to 15, abolition of several advisory committees, and selected reshaping of development co-operation structures, including the merger of the posts of Minister for Development Co-operation and that of Foreign Affairs. This last reform re-establishes the ministerial arrangement of the 1980s. While this is not seen by the government as a significant change in policy, some key development partners believe that it indicates a lessening Cabinet focus on development and has reduced the opportunities for the public at large,

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including some key development partners such as the NGOs and the “development press”, to engage in dialogue with the government. For some partners, this has fed a perception that Danish development co-operation now belongs to a “closed” group within the Ministry of Foreign Affairs. The government, on the contrary, considers that the debate has been considerably broadened.

Past Danish leadership in development issues is to a large extent due to the 80% of the Danish public that has vocally supported the importance of development co-operation. Much of that public support is still intact today, although it would appear that the issues of greatest concern may now be different, with a special focus on aid efficiency. Because Danish aid is highly concentrated within the South Group of the Ministry of Foreign Affairs, it will be critical to future public support for the Danish authorities to continue to actively cultivate and engage with organised structures of public outreach and awareness. The commitment to attaining the Millennium Development Goals (MDGs) should be an important element of this effort.

Active multilateralism: Taking the next steps

Concerning the multilateral institutions supported by Denmark, the policy of “active multilateralism” advocated by Danida seems well suited to the efficiency objectives of the current government. However, as noted already in the 1999 DAC Peer Review, this approach is less effective when a Danish initiative alone. Collaborative partnerships with other donors are now actively being sought. At the level of the recipient countries, active multilateralism also could be beneficial. Peer Review observations in Tanzania suggest that Danish active multilateralism principles could be used as the starting point for collaborative donor partnerships in favour of greater complementarity and co-ordination of bilateral and multilateral agendas in the field.

Recommendations

- i) 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. These could include mechanisms to intensify research and the sharing of policy level issues with the Minister or Parliament, or the attribution of more responsibilities in policy and strategy to a group with broad political credibility, such as the independent Board for International Development Co-operation.
- ii) 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. The Danida Communications Strategy currently under design will be one important part of that response, and should be shaped collaboratively with the audience that it seeks to serve.
- iii) The DAC welcomes Denmark’s current efforts to form coalitions with other donors on issues concerning the performance of **multilateral institutions**, so as to better co-ordinate the perspectives of all donors in this context. At the level of the field, the active multilateralism approach could be used creatively to promote improved linkages between bilateral and multilateral agencies across all donors.

Holding the line on funding levels

Since 1992, the Danish government has set ODA budgets on the basis of 1% of GNI. Subsequently, it decided to provide a further 0.5% of GNI via MIFRESTA (The Environment, Peace and Stability Facility) of which a large part would have qualified as ODA. Under the policies of the

previous Government, Danish ODA potentially could have risen to as much as 1.5% of GNI, although there was some doubt as to whether such a level would have been tenable. In 2002, the new Government announced that it would no longer use a fixed percentage approach, reduced the size of the development co-operation budget by 10% and abolished the special additional 0.5% window. Best estimates suggest that Denmark's ODA/GNI ratio could be in the 0.8% to 0.9% range over the next few years, considerably below previous expectations but still a strong performance among DAC Member Countries.

Recommendations

- iv) In the spirit of the Monterrey Consensus, the DAC encourages Denmark to make every effort to maintain its current level of **ODA volume**.

Maintaining geographical and sector focus

Political pressures also have grown in recent years to use Danish ODA in ways which promote domestically inspired priorities. At the sector level, special one-off budget supplements recently have been attributed to regional programmes for gender and refugees, neither of which were priority sectors in the local partnership agreements. Further, these funds are inherently not sustainable given their short-term character and they also divert the attention of local Embassy staff from the implementation of its Country Strategy portfolio.

At the same time, growing political sensitivity concerning good governance and human rights recently led Denmark to withdraw unilaterally from three priority countries (Zimbabwe, Malawi, Eritrea) with which long-term partnership agreements had been established. While conditions in these countries had clearly deteriorated to a point where donors generally are revising their degree of engagement, the abrupt withdrawal by Denmark raised the question of its commitment to the longer-term partnership concept.

While such references to public concerns are understandable, they do raise the danger of Denmark straying from its efficient policy of a sustained focus on priority countries, sectors and partnership agreements.

Recommendations

- v) 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**.

Policy coherence

Broadening Danish capacity to support policy coherence for development

The OECD and its members recognise that sustainably reducing poverty in developing countries and attaining the MDGs will require mutually supportive and coherent policies across a wide range of economic, social and environmental issues. As with other DAC members, enhancing Danish policy coherence for development can be a major challenge because the specific issues commonly involve both domestic interest groups and government agencies with primary interests and responsibilities other than that of reducing global poverty. Denmark is supportive of actions within international fora, including the European Union, that promote policy coherence for development while moving towards greater coherence in its own national policies, such as on aid untying. The positive attitudes and active

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development co-operation roles of the major Danish industry and farmers associations are a major asset in this respect.

The challenges and complexities associated with making policies coherent across government and within the European Union highlight the importance of DAC members being well organised to address policy coherence issues. In the Danish context, the merger of Danida into the Ministry of Foreign Affairs in 1991 was an important step towards greater policy coherence. Coherence in Danish European Union policy is assured through an elaborate co-ordination mechanism involving government agencies and civil society, also encompassing the private sector. The reform process should enable Danida to reinforce its capacity to work in the policy coherence area. This could include increasing interaction with extra-governmental structures (*e.g.* Parliament or civil society).

Recommendations

- vi) 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.

Untying of aid

The Danish government fully recognises the developmental advantages of untying aid. Denmark has supported recent initiatives within the OECD and the European Union to enhance the effectiveness of development co-operation programmes by further untying aid. At the same time, it has taken care in the context of the DAC Recommendation on Untying Aid to the Least-Developed Countries (LDCs) to ensure that its strong ODA/GNI performance, high levels of aid to LDCs, and its already comparatively high share of untied aid would be taken into account. In Denmark's view, further untying of Danish ODA should be matched with greater efforts by other donors, for example by an increase in their ODA levels, in particular for LDCs, or by untying other components of their aid programmes beyond formal requirements.

Denmark announced in February 2003 that it will adopt the European Commission's recommendation to open up, by January 2004, its aid-funded procurement to firms from other European Union member states. This announcement represented a significant positive shift in policy from a previous informal system that was used to ensure Danish source procurement at minimally acceptable levels. Meanwhile, the Danish industry association, which was previously a strong force behind the Danish policy on aid tying, now takes the position that its fundamental interests lie rather in promoting developing country industry associations, thus helping to lay the basis for future demand for Danish products.

Denmark's decision to untie its aid to all developing countries in line with the recommendation of the European Commission shows an accentuation of Danish untying efforts. However, the "Recommendation on Untying ODA to the Least Developed Countries", adopted by DAC members in 2001, also requires Denmark to open up procurement to firms from countries that are not members of the European Union for certain categories of aid to the least-developed countries. Denmark is one of five DAC members that have not yet fully implemented the Recommendation.

Recommendations

- vii) 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.

Aid management and implementation

Learning from the Danish experience

Because of its longstanding interest in new, more effective approaches to development co-operation, Danida has been in the forefront of addressing and applying best practices of some of the leading development approaches, such as sector based approaches, when to use or not to use budget support modalities, and the use of private sector approaches to development, including those supporting pro-poor growth. The DAC and its system of working groups and networks would benefit considerably from well documented feedback on the results of the Danish experience in these areas.

Recommendations

- viii) The DAC encourages Danida to continue to periodically reassess and summarise its extensive experience with modalities and areas of special developmental significance 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.

Empowering the field

In a major decentralisation initiative, Danida is accompanying Poverty Reduction Strategies (PRS) and other forms of decentralised co-ordination of aid management with a deepening of its own decentralised structures of decision-making and administration. It currently anticipates that implementation of these decentralised management principles will be completed by September 2003. The Ministry of Foreign Affairs believes that these measures will strengthen the competence and decision-making role of its embassies and reduce the level of administrative redundancy experienced in the current system.

While Denmark's partners in the field applaud the intent of this new management initiative, they are quick to point out a number of potential issues in decentralisation that already may merit closer Danida scrutiny, including the need to consider increasing the ambassadorial delegation to authorise funds beyond the current DKK 3 million (USD 400 000) level. Numerous field-headquarters relationships will need to be sorted out over time, including the specific operational roles of both Embassy and headquarters officials and a priority awareness of the critical staffing and budget needs of the new system.

Redeploying and training personnel and the role of the technical advisors

Critical to the success of decentralisation is the redeployment of staff from Copenhagen to the field in the context of a zero sum administrative budget. New posts will be created in the programme countries and an estimated 30 professional positions in headquarters will be eliminated. Authorities will be moved to the field from country desks and technical support offices. Handbooks and other guidance will be rewritten and training programmes will be put in place to accommodate the new requirements of decentralisation.

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Instigating quality assurance

The system that currently is being set up to monitor and facilitate these types of management approaches includes a new Quality Assurance Unit, the specific responsibilities for which are now being developed. This Unit will be responsible for corporate-level monitoring of bilateral and multilateral development assistance and will not be encumbered with line administrative responsibilities. Organisationally, it will be located at a crossroads between the individual decentralised field missions that vitally expect its continuous support and constructive feedback, and the political and administrative leadership of Danish development co-operation, who will require it to play an independent and even controlling role to ensure system efficiency and responsiveness.

Recommendations

- ix) Danida is encouraged to instigate regular, organised and **high-level tracking** of its new system of decentralised development co-operation, at least in the initial years of operation. It will be important for headquarters to actively demonstrate its support for the **staff and budget** resources necessary to make decentralisation work effectively.

Finding realistic approaches to results-based management

Public sector reform in many industrialised countries has caused the donor community to increasingly focus on performance issues, including the establishment of systems of results-based management for their individual programmes of development co-operation. Despite as much as a decade of experience in setting up this approach, the various DAC member systems in place have encountered numerous methodological, measurement and reporting problems and have not yet convinced the sceptics. Few successes have been registered to date in allocating budget resources using results-based systems.

Danida recently launched its programme for performance management in 2003 with the intent to improve the quality of its aid, improve its management, promote continuous learning and to increase accountability and measurement. Field observations during the Peer Review raised a range of substantive country-level issues in the current Danish proposal (*e.g.* methodological difficulties, staff and recipient country capacities, choice of indicators) that will require the focussed attention of Danida leadership. The Danish experience will provide useful information for all donors and should be seen as an important “learning laboratory” of interest to all and which could ultimately permit donors to identify internationally acceptable norms in this difficult area.

Recommendations

- x) Danida is encouraged to maintain close collaboration with other DAC members who are seeking to implement similarly important systems of **results-based management**.

CHAPTER 1

STRATEGIC FOUNDATIONS AND NEW ORIENTATIONS

The foundations of Danish development co-operation

The origins of the Danish programme of development co-operation parallel those of other founding members of the OECD and its policies have evolved many times over in the intervening four decades of aid experience. Denmark is proud of the development co-operation innovation and leadership that it has provided to the international donor community over these years. Denmark has frequently been recognised within the DAC for the generosity of its aid volume and for its leadership in areas such as poverty reduction, sector approaches or evaluation. The current legal underpinnings of its aid activities go back to the Act on International Development Co-operation (see Box 1), enacted by the Danish Parliament in 1971 and amended several times, most recently in 1998.

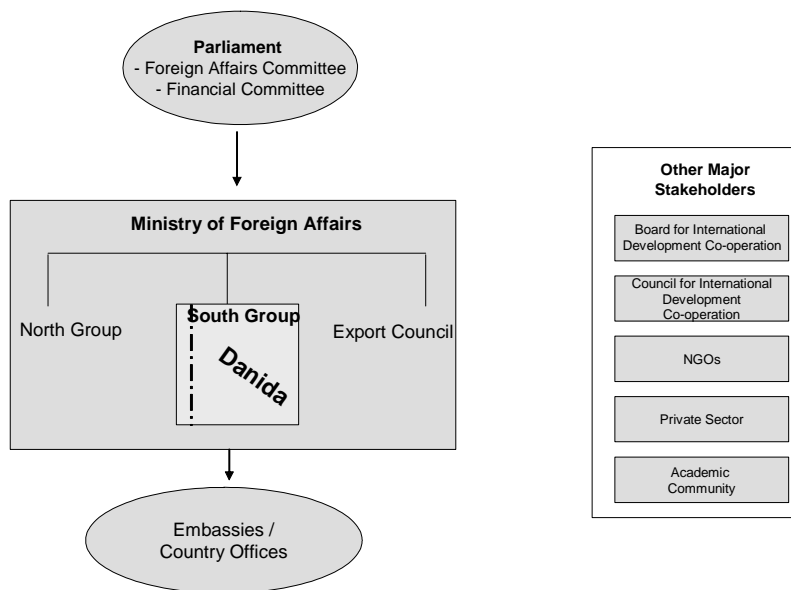
Box 1. Act on International Development Co operation of 1971, as amended in 1998

“The goal of Denmark’s governmental assistance to developing countries shall be to support – through co-operation with the governments and official bodies of these countries – their endeavours to attain economic growth, thereby strengthening their social progress and political independence in accordance with the United Nation’s Charter, its objectives and bearing principles, and also through cultural co-operation to promote mutual understanding and solidarity.”

The Danish people have a longstanding tradition of solidarity with developing countries. The past two decades have witnessed a very active public debate over the appropriateness of legislation to attribute 1% of Danish Gross National Income (GNI) to Official Development Assistance (ODA). The need for greater budget flexibility has led the Danish Government to abandon a percentage formula for the attribution of its development assistance, but it is expected that aid levels will remain within the forefront of efforts by members of the DAC.

Organisationally, the current shape of Danish development co-operation was established in 1991, when official institutional responsibility for aid was placed in the “South Group” of the Ministry of Foreign Affairs (MFA). The term “Danida” then became an acronym for “Danish Development Co-operation Assistance”, rather than denoting the aid agency formerly of that name. Key entities in Denmark’s compact development co-operation system are identified in Figure 1 and are more fully discussed in Chapter 5. The role of non-governmental actors (and even other government ministries and agencies) in Danish development co-operation remains very limited.

Figure 1. The overall system of Danish Development Co-operation



Source: OECD

Strategically, Denmark’s development co-operation is increasingly considered to be a central principle of its overall foreign policy and, as with other aspects of Danish foreign policy, has been designed on the basis of long-term partnership, solidarity and reciprocal obligations. Its operational efficiency has been significantly enhanced by a geographic focus around a small number of priority countries and substantive concentration on no more than four sectors per country. This makes Denmark one of the most strategically framed members of the DAC.

Policy and organisational reform since the 1999 Peer Review

Key issues from the 1999 Peer Review

Annex 1 lists the important concerns raised in the 1999 Peer Review. Key issues included those of a **policy** nature (performance-based budgeting, informal tying of aid, the utility of “active multilateralism”, the dependency of non-governmental organisations, the decrease in public support), those related to **capacity** (under utilisation of decentralised decision-making, staff limitations in the field, the logic of using consultants), or topics on **procedure** (need for greater local ownership of aid). A number of specific changes have been undertaken on these topics since the 1999 Review, including the untying of aid with regard to procurement in other EU countries. Each of the 1999 concerns are raised in the context of this Peer Review report.

Policy and organisational change

Danish development policy has evolved significantly at two different moments over the last four years and for two different reasons.

First, just after the 1999 Peer Review, the Danish Parliament approved a major statement of aid strategy, “**Partnership 2000**”. This document was the result of extensive analysis and consultation with a wide spectrum of Danish society. It established a political foundation for Denmark’s

development policy. It laid down the objectives of Danish development assistance, described the challenges and the strategic choices that Denmark expects to make so as to reduce poverty in the developing world (see Box 2).

Box 2. Partnership 2000

The main message in Denmark's current development strategy -- Partnership 2000 -- is that alleviating poverty is the single most important aspect of Danish development co-operation. Denmark believes that poverty reduction is the responsibility of both developing and industrialised countries and it therefore wants to live up to this shared responsibility by actively supporting developing country efforts to improve their economic, social and political living conditions. Within these efforts, factors such as equal participation by men and women in the development process, regard for the environment and respect for human rights and democratisation are considered crucial. Denmark intends to strengthen its efforts to promote broad-based pro-poor economic growth by helping to provide the necessary framework for the business sector, with emphasis on agriculture. HIV/AIDS is another of Partnership 2000's priority areas. Focus is on prevention but mobilising political will and fighting against discrimination of people who are infected are considered equally important. Furthermore, Partnership 2000 states that Denmark will continue to have a special focus on Africa. Since armed conflicts create human suffering and set back development, Denmark will intensify its efforts to prevent, manage and settle armed conflicts in developing countries. Finally, as the title of the strategy suggests, partnership is at the centre of Danish development co-operation. Denmark strives to establish long-term partnerships based on trust with developing countries and other donors. Denmark strongly believes that national ownership, which is increasingly accomplished in partnerships, is the key to achieving sustainable development.

The second important shift in policy came soon after the 2001 **national elections**. The new Government's "Review of Denmark's Official Development Assistance and Environmental Assistance to the Developing Countries" (January 2002) announced some of the boldest proposals for change in development co-operation that had been seen in many years. That document, while maintaining the previous focus on poverty reduction objectives and specifically reaffirming the central place of Partnership 2000, reduced funding for development assistance, emphasised the reciprocal responsibilities of the aid recipient countries, and stressed the need to promote greater efficiency in implementing aid. Box 3 outlines some of the key operational decisions that were announced in that document. The tragic events of 11 September 2001 reinforced the Danish conviction that the destinies of developed and developing countries are intimately intertwined, while it pushed Danish development thinking more vigorously toward conflict resolution and human rights issues. The new Government also had major impacts on the organisational structure, often in the name of reduced administrative costs and greater efficiency. These organisational changes included an immediate decision to merge the posts of Minister for Development Co-operation and Minister for Foreign Affairs.

Box 3. The immediate decisions of the Government Review of January 2002

- Abandonment of the policy supporting an allocation of 1% of GNI for development co-operation. Immediate reduction of the development budget by DKK 1.5 billion, associated with the government intention to increase funding for Danish national health care. This included reduction of DKK 500 million for environmental activities from the Special Facility for Environment, Peace and Stability.
- Reduction in the number of priority "programme countries" from 18 to 15. They are now to be periodically evaluated on their will and capacity to implement policies in poverty reduction, governance and human rights. The countries removed from the original list on this basis were Zimbabwe, Malawi and Eritrea.

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(Cont'd)

- Review of budget levels for UN organisations in accordance with their efficiency. Denmark's contribution to UNDP, ILO, UNIDO, UNESCO and UNRWA to be decreased in 2002 and those to the Global Fund (HIV/AIDS), UNAIDS, WTO and the Global Environmental Facility to increase.
- Immediate transfer of environmental programmes managed by the Ministry of the Environment to the Ministry of Foreign Affairs and a 50% reduction of the budget of these programmes for 2002.
- Abolition of several advisory committees (NGO Liaison Committee, Advisory Board for Environmental Assistance to Developing Countries, committees on industrial development in developing countries, inter-ministry co-ordination on culture and development, etc.).
- Establishment of a special Human Rights Unit in the MFA.
- Reduction of funding for Danish NGOs by 9% in 2002.

Emphasis on greater involvement of the Danish business sector in development co-operation, including the inclusion of private sector programmes in every programme country and the expansion of Mixed Credit schemes.

Anxious to implement its electoral platform expeditiously, the new government completed decision-making for these changes in the first 100 days of its mandate. The speed of these changes in the traditionally slow-moving, consensual context of Danish decision-making provoked both admiration from some for its efficiency and criticism by others as a disappointing break in the fundamental logic of Partnership 2000. While the political appropriateness and the financial efficiency of these measures are a matter of internal Danish debate, these decisions appear externally to represent a lessening of the political priority given to Danish development co-operation. The decision to reduce the size of Danish ODA also runs against the current international tendency to increase funding for these objectives following the International Financing for Development Conference in Monterrey. The decision to drop a Cabinet level development co-operation position necessarily reduces the focus of national political attention on development issues and Denmark's development co-operation effort.

It is important to emphasise that many of these decisions were not directed exclusively on the topic of aid, but rather were part of a government-wide attempt to reduce the size of bureaucracy and to improve its efficiency. After one year in government, a further process of intra-governmental brainstorming of key coalition themes has been initiated. The political and operational contours of the coalition's new approach to Danish development co-operation will be updated as part of that process. A five-year strategy (2004-2008) and budget estimate for Danish development co-operation is expected by August 2003, and will provide an important new basis for continuity and dialogue. It is not clear at this point, however, exactly when and how civil society and specialised development oversight bodies such as the Danida Board or Danida Council will participate. In the spirit of Partnership 2000, a special effort at collaboration with representatives outside the compact management structures of Danish development co-operation would seem highly desirable, and would go a long way toward diminishing the criticism heard from some parts of Danish civil society that development co-operation now belongs to a "closed" group. In this context, the government could consider establishing a forum for regular and structured development co-operation dialogue with the public as an alternative to the recently abolished NGO Liaison Committee.

Public awareness

Development co-operation and a Danish aid target of one percent of GNI appear to have enjoyed generally strong public support over the last twenty years. The Eurobarometer¹ surveys of 1996 and 1998 indicated a remarkably stable 83% of respondents in Denmark who thought that aid to developing countries was important or very important. In February 2003, a major new opinion poll² showed that the majority of the Danish public considers development assistance to be a standard feature of public expenditure. Among the respondents, 74% believe that Denmark is co-responsible for alleviating poverty in the world. A majority (68%) polled were opposed to any further reductions of Danish ODA.

Public ownership of foreign aid is a longstanding priority for the Danish government, which has maintained a public information and awareness programme since the early years of its development assistance. A recent publication of the OECD Development Centre suggests that the public awareness programme in Denmark is one of the strongest in the OECD's Development Assistance Committee (DAC)³, although some feel that the role of formal education in promoting its messages is over-emphasised. Development issues and developing countries are included in the school curriculum and teachers are provided with extensive information material. The budget for development information and education is almost exclusively provided by government and includes a Danida information activity, an Information Grant to NGOs, and others. This budget has increased since 1995 and currently totals almost USD 10 million per year, slightly less than 1% of the Danish ODA total. Nevertheless, recent partial surveys of public opinion seem to indicate greater fluctuation in public support for development co-operation, both up and down, than in the past, stimulated by such recent events as the more polarised than usual 2001 elections or the tragedy of 11 September. Prodded by recent national political debate, public interest now seems less focussed on the importance of development co-operation and more on the effectiveness of the Danish system. Also of special interest in Denmark today is the topic of immigration, which was a prominent issue in the 2001 elections and is indirectly linked to the theme of development co-operation.

An informed public opinion is critical to future Danish political support of development co-operation actions in the developing world. The new trends in Danish public opinion seem to suggest that Denmark's well organised public awareness programmes need to review these trends more closely so as to better understand their relevance to the future of national support for development co-operation.

Future considerations

- Given its reputation as an engaged and forward looking donor, Denmark is well placed to leverage the evolution of development policies within Europe and the international community despite the relatively small size of its economy. In order to maintain its high

1. Eurobarometer is a periodic survey of attitudes in the European Union member states. Eurobarometer research on development co-operation in 1996 and 1998 is located in Eurobarometer 44.1 and 50.1.

2. The survey on the Danish public's views on development and environmental assistance was published in February 2003. 1000 people were interviewed by Aalborg University and ACNielsen AIM. The survey was financed by a number of Danish NGOs. 63% would prefer spending on development assistance to tax relief and in the choice between health and aid 58% feel that Denmark can afford to do both.

3. *Public Opinion and the Fight Against Poverty*, North-South Centre of the Council of Europe and OECD Development Centre, OECD, Paris, 2003.

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political profile in the development co-operation arena, Denmark is encouraged to seek out ways of ensuring a strong **political leadership** in development at these levels.

- Because of Denmark's highly centralised and strongly government led approach to development co-operation, it is important that Danida senior management seek out deliberate and regular linkages with the **Danish public and civil society organisations**. This is particularly true in light of the abandonment in 2002 of a variety of past approaches to this topic.
- The Danish government is encouraged to avoid future **discontinuities** in its development co-operation such as was experienced in January 2002.

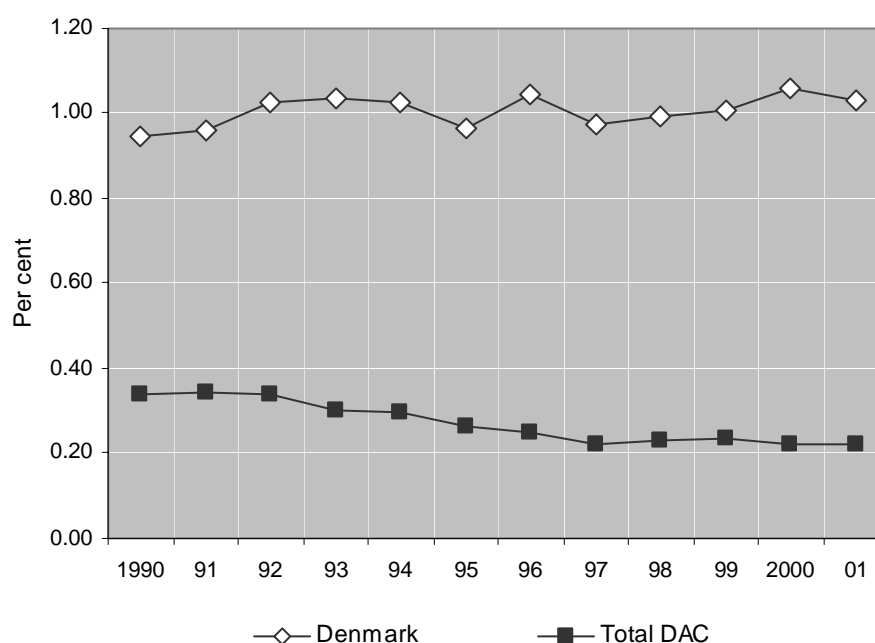
CHAPTER 2

AID VOLUME, CHANNELS AND ALLOCATIONS

Denmark's overall external assistance

For the last decade, Denmark has been among the most generous of all DAC aid donors taken in terms of the proportion of its economy dedicated to Official Development Assistance (see Figure 2). In 1985, Parliament established an official target for ODA of 1% of GNP, which was reached in 1992. At one point it even envisaged (but never officially established) a target of 1.5%. The new government has made it clear that Denmark will no longer work against a fixed percentage target, but rather, that its official political aspiration will be to remain “among the lead donors” in development co-operation. Since the late 1980s, almost all of Denmark’s ODA has been in the form of grants.

Figure 2. ODA as a percentage of GNP



Danish ODA in 2001 was USD 1 634 billion, representing 1.03% of the nation’s GNI. Denmark was the most generous of all DAC members that year. The overall 2001 ODA budget was slightly increased over the previous year by the Danish parliament (1% in terms of Danish Kroner), but actually decreased by 1.6% in real terms. In 2002, the new government followed through on its campaign pledge to reduce the size of Danish aid by DKK 1.5 billion and transferred these funds to support the Danish national health care system. With that political decision executed, it is now suggested by the Danish administration that every effort will be made to “straight line” the volume of Danish aid into the immediate future. This implies, of course, that the percentage of aid in relation to

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the economy can be expected to slowly decline. Best estimates based on current funding projections suggest that Denmark's ODA/GNI ratio could be in the 0.8% to 0.9% range over the next few years.

Official channels of aid

Because of the very compact and centralised organisational nature of Danish development co-operation (see Figure 1 in the previous chapter), it is comparatively easy to identify the institutions that manage Danish development funds and how the assistance has been used. Organisational centralisation was further reinforced in 2002 with the transfer of funding responsibility for the overseas environment programme, DANCED, to Danida. Management responsibility for virtually all Danish development funding now can be traced to the South Group within the MFA.

A simpler understanding of the general allocation of official funding for purposes of foreign assistance can be gleaned from Table 1 for the Danish budget year of 2001.

Table 1. Summary of the main Danish development budget lines for 2001

Area of Assistance	Appropriation in DKK millions	
Administration	620	(4.9%)
Africa	2 333	(18.3%)
Asia	1 081	(8.5%)
Latin America	348	(2.7%)
Special Project Assistance (incl. PS-programme)	179	(1.4%)
NGO-Assistance	966	(7.6%)
Transition Assistance (to the Balkans and Albania)	240	(1.9%)
Consultants	599	(4.7%)
Mixed Credits	250	(2.0%)
Other Activities (such as educating the public and holding seminars)	193	(1.5%)
Human Rights and Democratization	72	(0.6%)
Sub-total: Bilateral Assistance	6 881	(54.1%)
UN Agencies	1 691	(13.3%)
World Bank	586	(4.6%)
Regional Banks and Funds	371	(2.9%)
Other Multilateral Assistance	942	(7.4%)
Humanitarian Assistance	922	(7.2%)
Sub-total: Multilateral Assistance	4 512	(35.4%)
Other Assistance	1 343	(10.5%)
Total of above	12 736	(100%)
Additional environmental assistance	1 600	
Adjustments for promissory notes	(-800)	
Total Danish ODA	13 536	

Source: Finance Bill 2002, Danish Parliament and Danida

Twenty years ago, Denmark split its ODA funding almost equally between bilateral and multilateral categories of assistance delivery. Perhaps in part because of the desire to more strongly identify development activities with Danish foreign policy, the slow trend since then has been to favour the **bilateral** conduit of funding, which represented 64% of overall ODA gross disbursements in 2001 (see Annex II, Table II-2). This is somewhat less than the DAC average of 70% in that same year. Bilateral aid is largely implemented by the official mechanism of Danida, including the transfer of some 10% of bilateral ODA to a small number of Danish non-governmental organisations for subsequent implementation. Although NGOs formerly were required to make a 10% contribution to development funding provided by the government, no such requirement has been made of them since 1993. Unlike many DAC member NGOs, Danish NGOs tend not to be financially autonomous and

generate comparatively little voluntary revenues, although among NGOs, fund-raising is somewhat easier for the larger NGOs and for “humanitarian” causes than for those with a developmental focus.

Consistent with the longer term trend noted above, **multilateral** aid represented 36% of ODA gross disbursements in 2001. In comparison, the total DAC average proportion of multilateral aid was 30% in 2001. Denmark sees the multilateral mechanism as a flexible one that permits the country to deal with its “global responsibilities” that cannot be fully addressed in its very geographically focused bilateral programme. Additional reasons for an emphasis on multilateral contributions include the fact that these agencies have a comparative advantage in certain aid areas and that Denmark attaches a general importance to strengthening the role of the UN system. Table 2 illustrates how Denmark allocated its multilateral ODA in 2001.

The proportion of Danish aid using multilateral channels has changed little since the last Peer Review and Danida leadership expects it to remain fairly stable over the next few years. The new government has made it clear that Danish aid to multilateral institutions will be regularly monitored and evaluated and that continued Danish assistance will be granted only to organisations “that show the will to focus and to increase their efficiency”⁴. The government did not suggest new specific criteria or benchmarks of efficiency, but previous criteria have rated these organisations against their own mandates. Against its general policy of promoting greater efficiency in the use of Danish funds world-wide, the government has officially noted its concern that the multilateral development co-operation system often is characterised by bureaucratic organisation that spreads itself over too many activities and countries.

Table 2. Allocation of ODA in multilateral agencies

Per cent of total ODA gross disbursements

Agency	1999 Peer Review (1997 data)	2003 Peer Review (2001 data)
Gross multilateral ODA	37	36
UN agencies, of which:	18	16
UNDP	(5.6)	(3.5)
WFP	(2.5)	(2.4)
UNHCR	(2.5)	(2.2)
UNICEF	(1.8)	(2.1)
UNFPA	(2.2)	(1.6)
Other	(3.4)	(4.2)
EC	5	5
World Bank group	1	4
Regional development banks	3	2
Other multilateral	10	8

Source: OECD

⁴. “Summary of the Danish Government’s Review of Denmark’s Official Development Assistance and Environmental Assistance to the Developing Countries”, Copenhagen, January 2002.

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In 1996, Denmark sought to focus its multilateral assistance in a limited number of organisations so as to obtain the “critical mass” necessary to permit Denmark to be influential. This policy of “active multilateralism” has led it to maintain an active monitoring process of the multilaterals, including regular reporting from its field missions on multilateral behaviour in country. Peer Review field observations in Tanzania suggested a number of disconnections between bilateral and multilateral agendas within the donor community there. Danish active multilateralism policy would seem to invite more active Danish analysis and corrective action in such cases.

Active multilateralism has also meant that Denmark seeks to place its “fair share” of Danish nationals in selected, key multilateral institutions so as to ensure that performance expectations are firmly anchored in their programmes. Denmark continues to attempt to seek out broader alliances of partners who share Denmark’s objectives in development. For example, it is working with the Netherlands and other “like-minded” donors to set up a common work plan for evaluation of multilateral institution performance. This is expected to begin in eight countries with a pilot evaluation of the World Bank, Asian Development Bank and UNICEF, particularly in the areas of health and governance. Active multilateralism has led to a practice of specific annual consultations with the main international bodies funded by Danida.

At the level of individual multilateral institutions, Denmark has traditionally been a strong supporter of the United Nations Development Programme (**UNDP**), although it has reduced its UNDP funding in recent years due to perceptions of inefficiency at the country level. Denmark reduced its voluntary contribution to the UNDP by DKK 50 million in 2002, although it is still among the ten largest donors to this organisation. Elsewhere in the UN system, 2002 witnessed a reduction in Danish support for the International Labour Organization (**ILO**) (down DKK 5 million), the United Nations Industrial Development Organisation (**UNIDO**) (down DKK 5 million), and the United Nations Educational, Scientific and Cultural Organisation (**UNESCO**) (down DKK 20 million). The Joint United Nations Programme on HIV/AIDS (**UNAIDS**) funding was unchanged and the World Food Programme (**WFP**) and the International Fund for Agricultural Development (**IFAD**) funding remained stable. Denmark provided DKK 624 million to the **EU** budget in 2002 and DKK 233 million to the Cotonou Agreement for the ACP States. Funding for the **World Bank** totalled DKK 493 million and that of the other **regional development banks** was DKK 504 million.

Aid allocations

For many years, Denmark’s ODA allocation processes have been carefully watched (and generally approved) by Danish political and public observers. In the name of critical mass and greater efficiency and effectiveness, its ODA is programmed according to well-vetted strategies at the country level and the numbers of countries and sectors within those countries have been limited according to transparent selection criteria (see Chapter 5 for greater detail on strategic screening processes). The concern for efficiency in Danish development co-operation is a major theme of the new government, and it appears probable that continued high levels of public and political support for Danish aid will depend, in part, on the development of a convincing, results-based system of fund allocation.

Geographic allocation

The Foreign Affairs Committee of the Danish Parliament laid down a set of criteria in 1989 to be used in selecting the countries which receive development assistance. Those criteria are: (i) recipient country need and the quality of its development planning; (ii) the supply of other donor aid and the country’s ability to absorb it; (iii) the country’s potential to promote sustainable development; (iv) the country’s potential to promote human rights; (v) the country’s potential to promote gender equality; (vi) previous Danida experience; and (vii) if all other criteria are fulfilled, a final criterion is the

possibility for promotion of Danish business and employment. These criteria continue to be used for screening of recipient countries and are globally consistent with subsequent strategic thinking, including “Partnership 2000”. One exception that merits revisiting is the appropriateness of maintaining, in today's world, criterion (vii) on a Danish self-interest concept around commercial and employment requirements.

Box 4. Selecting and exiting priority programme countries

Since the 1971 Act on International Development Co-operation, Denmark has had a number of criteria for choosing the recipients of its development aid. Among them has always figured “good governance” and, more specifically, “respect for human rights and democracy”. In 2002, these criteria were used to stop three priority country programmes (Eritrea, Malawi, Zimbabwe). Denmark felt that disengaging from these countries clearly demonstrated Danish political disapproval and put pressure on their governments to change. Danida also argued that its assistance could be used more effectively in other countries that had sound policies. Many Danes protested this action, however, contending that such unilateral terminations with programme countries were contradictory to the concept of a long-term commitment and partnership, and had been used too rigorously. It was also suggested that the selective use of governance and human rights criteria to withdraw from these countries may have been driven more by budgetary considerations than by substantive concerns.

The question of whether to stay in countries in which the governments do not have appropriate policies is an important issue for most donors. There is currently an active debate in the international community on criteria to be used in selecting and exiting development partners. The DAC has issued a number of policy notes on this topic. The main recommendation is for donors to try to stay engaged, even if aid funding is suspended. In such situations, donors are encouraged to concentrate on (i) supporting pro-poor change, (ii) maintaining services for the population, and (iii) ensuring better co-ordination and tighter coherence. Donors are encouraged to work with all parts of society and collaborate with other donors to foster a broad-based policy dialogue with government on the issues. However, not all donors need to remain present – policy dialogue can be effectively led by the lead donor(s) with the greatest comparative advantage to influence constructive change. Because of its long-term formal commitment to partnership with the governments in Zimbabwe, Eritrea and Malawi, some have suggested that Denmark might have had a better chance of influencing them by being present rather than by leaving.

The geographic allocation of Danish aid has remained fairly stable since the 1999 Peer Review, and is heavily focussed on poorer countries, particularly in Africa, where 56% of its bilateral ODA was disbursed in 2001 (Annex II, Table II-3), followed by Asia with 29%.

Consistent with Denmark's overriding strategic focus on poverty reduction, in 1994 Denmark retained 20 priority programme countries for its longer term attention. Since the last Peer Review, five countries have been eliminated from that priority list. The first two (India, Niger) were withdrawn in 2000.⁵ The decision to withdraw from the last three (Zimbabwe, Eritrea, Malawi) in 2002 was publicly justified on the basis of poor governance and abuse of human rights in those countries (see Box 4). Of the current list of 15 priority programme countries remaining (Box 5), it is worth noting that, with the exception of Egypt and Bolivia, all fall into the lower income category, 12 are Least Developed Countries (LDCs), and eight are located in Sub-Saharan Africa. Also, it is interesting to note that despite a major effort at concentrating its assistance in a small number of priority countries, slightly

⁵ Both India and Niger have special status in the Danish programme of development co-operation. In response to India's nuclear weapons test in May 1998, the Danish Government decided to suspend preparation of new activities. On-going projects will continue until their termination in 2008. In Niger, the extreme instability of the 1990s weakened the capacity of the state to such an extent that Denmark was unable to initiate the sector programmes that had been planned. Therefore, in May 2000, Niger ceased to be a priority country, although assistance continues at a level of DKK 45-50 million per year.

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more than 30% of Danish bilateral ODA in 2001 was distributed among another 72 non-priority beneficiaries,⁶ most of whom were recipients of aid extended by NGOs. The number of non-priority country recipients, which includes an assortment of countries in transition and countries benefiting from NGO, mixed credit or other specialised programmes, nevertheless has declined from a somewhat larger number at the time of the 1999 Peer Review.

Box 5. Danida Programme Countries

Danida currently considers the following 15 countries to be priority programme countries: Bangladesh, Benin, Bhutan, Bolivia, Burkina Faso, Egypt, Ghana, Kenya, Mozambique, Nepal, Nicaragua, Tanzania, Uganda, Vietnam, Zambia.

Sector allocations of ODA

The latest OECD data (see Annex II, Table II-5) show that, compared with the average for DAC donors, Danish bilateral aid places a higher priority on activities in the sectors of government and civil society, transport and storage, agriculture, and emergency relief. Denmark allocates relatively less to education, population programmes, other social infrastructure and debt relief. Chapter 3 will deal more extensively and specifically with the priority sectors as defined by Denmark itself.

Future considerations

- Denmark was the most generous donor in the DAC in 2001 and, even after reducing the volume of its ODA in 2002, intends to remain above the 0.7% ODA/GNI target into the future. Against the broader picture of a potentially difficult economic and fiscal situation over the next few years, Denmark is encouraged to make every effort to maintain its current **ODA volume**.
- Denmark has made substantial commitments to focusing and concentrating its bilateral aid in a small number of programme countries. Nevertheless, a noticeable amount of its aid is still spread over many **non-programme countries**. Despite Denmark's intention to maintain a policy of concentration, there may be a risk that domestic political pressures could cause this number to grow. Denmark is encouraged to pursue its past efforts to avoid geographic dispersion and to maintain its strategic vision of focused allocations of scarce aid funds to priority recipients.
- The Danish policy of "**active multilateralism**" has led to a more engaged and pro-active behaviour between Denmark and the multilateral institutions that it funds. Denmark is encouraged to pursue its current interest in forming coalitions with other donors on multilateral issues so as to better co-ordinate the perspectives of all donors in relation to the multilateral context. At the level of the field, the active multilateralism approach could be used to promote improved linkages between bilateral and multilateral agendas across all donors.

⁶ Calculation does not include some 30% of Danish bilateral ODA that was "unallocated" – meaning that it was not country-specific. This essentially consists of costs of receiving refugees in the donor country, administrative costs and disbursements on regional activities.

CHAPTER 3

MAIN SECTORS AND CROSS-CUTTING ISSUES

Emphasis on sector programming

Denmark's willingness to increase the efficiency of its ODA, including Danida's programmatic concentration on a limited number of countries, has also had an impact on the way its aid is delivered. Since 1994, Danida has attempted to redirect its aid away from traditional, free-standing project assistance and to concentrate the funds allocated to its priority countries in the form of Sector Programme Support (SPS). Formal guidelines for SPS were devised so as to establish the operational principles of SPS implementation and by the time of the 1999 Peer Review, it was reported that 59 sector programmes had been prepared or were under preparation in 18 of the 20 programme countries. Today an estimated 70% of bilateral Danish ODA is allocated to sector programmes. SPS approaches are, by definition, as fully co-ordinated as possible with other partners in the field.

Danida implementation experience has brought some inevitable changes to the SPS concept since its origins almost a decade ago. Danida personnel often refer to the evolutionary process of SPS as belonging to different "generations". A first generation of SPS tended to be simple collections of activities under the general packaging and co-ordination of a sector perspective. Second generation programmes tend to be more integrated and strategically linked to national strategies of the recipient country. They can, in some cases, disburse funds through the use of targeted or general budget support mechanisms. The characteristics of any one SPS programme will depend on both the country and the sector. In traditional public sector areas and where there are comprehensive national strategies in place, SPS is normally more evolved.

Box 6. Danish experience with Sector Programme Support (SPS)

As part of its preparation for the Partnership 2000 strategy, a Danida review of the SPS approach led to the following observations:

"Most staff members assess SPS as a positive, but also comprehensive generational change in Danish development co-operation. Positive aspects mentioned include the increased focus on the context in which the support is provided, the coherence which can be achieved, the long-term perspective, and the possibilities for establishing a continuous dialogue with partners.

Negative aspects mentioned are that SPS is too narrowly focused on sectors and too oriented towards co-operation with central government authorities. It is also said that the concept builds on an ideal of conflict-free poverty reduction. The strategy is largely seen as donor-driven and very time consuming, and the capacity of Danida to handle SPS is not yet fully developed.

The approach to SPS is in practice very pragmatic. The link to national policies and central government institutions is strongest in 'traditional' public sectors (health, education). In 'cross-cutting' sectors like agriculture and environment, SPS frequently comprises a number of separate components, implemented with different partners. In infrastructure sectors, SPS includes investment projects articulated in a sector policy framework.

National ownership of preparation, implementation and control of Danish assistance varies from country to country, and sector to sector. Generally, the expectations regarding national ownership have not been met, and the SPS approach has implied the posting of more long-term advisors than expected. National ownership is considered important for achieving sustainability. Sceptics worry, however, that the emphasis on ownership will imply ownership by central authorities, who may not be fully able or willing to pursue pro-poor policies. In practice, the ownership concept creates many difficult dilemmas about what it shall and can imply, how civil society can be involved, and how the accountability to Danish tax-payers is ensured. There is a high awareness among staff of the risk that donors become *de facto* owners of policies and programmes, because government capacity is insufficient compared to donors' pressure for results and for disbursement...".

Source: "Support for Sector Programmes – Experiences, Perspectives, Challenges", Danida Working Paper No. 6, March 2000.

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Danida is actively working towards increasing the number of newer generation SPS, since the national ownership is more pronounced in these forms of SPS and Danida's recently decentralised organisational structures permit it to address ownership considerations in a more realistic fashion. In line with this objective Danida also strives to escape the need for separate organisational structures for implementation. Therefore capacity building and institutional strengthening that aim to make recipient systems institutionally sustainable are usually central elements of SPS cooperation. After a decade of using the SPS system, Danida has assessed a number of positive and negative experiences, some highlights of which are noted in Box 6.

The priority sectors

According to Denmark's own budget statistics, the allocation for bilateral assistance in 2002 went roughly 50% to social sectors (health, education, water and sanitation), 25% to economic infrastructure (transport, energy) and 25% productive sector (agriculture, private sector). The fact that Denmark allocates slightly more than the DAC average to economic infrastructure and the productive sectors reflects the importance it assigns to economic growth as an indispensable element in alleviating poverty. In this sense, enhancing the business climate by improving infrastructure and increasing market access for farmers, for example, are seen as central components in achieving sustainable growth.

In line with the 20/20 initiative⁷ taken at the Copenhagen World Summit for Social Development, held in 1995, Denmark allocated 27% of its ODA to social services and social infrastructure in 2001. These sectors are now receiving increased attention by Denmark, largely due to the rapidly growing incidence of HIV/AIDS. Since social services and social infrastructure are traditionally a matter for the public sector social services, especially health and education, this is also the field in which Danida has gone the furthest in using the SPS approach.

Table 3. Overview of Danish sector programme allocation

Sector/ Country	Bangladesh	Benin	Bhutan	Bolivia	Burkina Faso	Egypt	Ghana	Kenya**	Mozambique	Nepal	Nicaragua	Tanzania	Uganda	Vietnam	Zambia	Total
Agriculture & Fisheries	X	X		X	X				X		X	X	X	XX		10
Infrastructure	X	X			X	X*	XX		X	X	X	X	X		X	12
Business Sector												X				1
Health			X				X					X	X		X	6
Education									X	X					X	3
Water & Sanitation	X	X			X*	X*	X*						X	X		7
Environment			X	X		X				X	X					5
Other			X	X												2

* No agreement has been signed yet on sector programmes but components or initial activities of sector programmes have been initiated.

**Because of the political situation in Kenya, the country strategy has not been finalised.

Source: Danida Sector Programme Development Assistance (www.um.dk/danida/sektorguidelines), 2002.

⁷. The 20/20 initiative is an agreement between developing and industrialized countries. It calls for the allocation of 20% of the budget in developing countries and 20% of ODA to basic social services.

Table 3 shows infrastructure, followed by agriculture, water and sanitation and health, to be the most common sectors of interest. The sectors in which Denmark has used SPS are chosen chiefly for their ability to reduce poverty in the programme countries but also reflect an effort to avoid areas where many other donors are present. For example, in Tanzania, Danida did not enter the important sector of education mainly because of the number of other donors already committed to the sector. One sector of increasing attention is the business sector and Danida has already initiated programmes in Tanzania, Ghana and Vietnam.

Danida's principle is to be involved in a maximum of three to four sectors per programme country, although the presence of several crosscutting issues tends to increase the actual number of priority areas addressed. The main areas of Danida sector interest are noted in the following paragraphs.

Agriculture and Fisheries

Many of Danida's programme countries have a special interest in agriculture and/or fisheries, and Denmark has long been involved in these areas (see Box 7 for a specific example related to Vietnam). Danida is currently redirecting its assistance from working with ministries that are primarily concerned with agriculture to assisting individual farmers. SPS has turned out to be more difficult to implement successfully in this area than, for example, health and education, although efforts continue to be made to work in the direction of programme assistance. Because of Danida's poverty orientation, sector focus now tends to be directed towards small-scale farmers. By using a programme approach it hopes to obtain a more comprehensive view of agriculture and fisheries, thereby increasing effectiveness at the macro-level.

Box 7. Fisheries in Vietnam

In less than a decade, Vietnam's fisheries exports increased sixfold in value from USD 305 million to USD 1.8 billion. The development was especially impressive in view of the serious problems of the fishing industry. For many years, the quality of fisheries in Vietnam was too low to meet the standards demanded in the US and the European markets. In 1993 Denmark began to support the Vietnamese fishing industry through UNIDO and three years later Danida initiated its own direct co-operation with Vietnam. Together the countries started the Seafood Export and Quality Improvement Project (SEAQIP), which was later integrated into the Danish fisheries programme. Danish support included areas such as quality control, production development, improved co-operation within the industry and international marketing.

The development that followed was remarkable. Improvements in the conditions of hygiene in Vietnamese fishing factories led to a rapid increase in the number of factories able to export on the world market from 15 in 1997-99, to 68 in 2002. The United States, which had earlier refused to import fish from Vietnam on sanitary grounds, now has surpassed Japan as the largest importer of Vietnamese fish. The percentage of overall fisheries production exported grew from 17.5% in 1998 to 35% in 2001. The linkages between the fisheries programme and poverty reduction are multiple and have been measured. In addition to generating income for the country and providing it with foreign exchange, the fisheries sector has created thousands of new jobs, mostly in rural areas, which are largely occupied by the unskilled and women. Today, Danish support to the Vietnamese fishing industry has evolved to focus on ensuring sustainability and avoiding environmental problems.

Source : Danida

Infrastructure

Infrastructure programmes account for 22% of bilateral ODA and 11 out of 43 sector programmes. Denmark sees infrastructure as important for most parts of the society but essential for

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increasing productivity in agriculture. Danish efforts in the field range from building small roads, to improving airports, railways, telecommunications and energy supply. Most of the investments are carried out within the framework of the mixed credits schemes. In the transport area, Danida is currently moving from trunk to feeder roads, since the latter have proven more effective in targeting the poor.

Business Sector

It has long been important for Danida to work with the private sector, both in developing countries and in Denmark. Recently Danida has also increased its focus on the business climate in its programme countries. Three pilot business sector programmes have been initiated in Tanzania, Ghana and Vietnam (see Box 8). SPS in these countries is designed to improve the business climate, with activities ranging from the improvement and development of the financial sector, to work on regulatory policies and legal frameworks for local business development.

Box 8. The Business Sector Programme in Tanzania

In Tanzania, Danida had long realised the fundamental importance of a vibrant local private sector for the country's sustainable economic and social development. In 1998, it decided to break with past practice and clustered its eight different private sector initiatives (e.g. vocational training, occupational safety, micro-finance, investment funds) into one administratively unified programme, representing a first generation of sector programme thinking. Recognising the implementation proximity of these components, Danida gradually brought these different initiatives into a more strategic business sector approach.

Following a revision in 2001, it was decided to reshape these Danida private sector activities into a more strategic and integrated second generation sector approach. The business sector has been a priority sector for Danish aid to Tanzania since the first Country Strategy in 1996 (in addition to health, roads and agriculture). In 2003 support will evolve into a second generation Business Sector Programme Support (BSPS II). It will contain four separate components: (i) a multi-donor business basket fund to strengthen the business environment (in collaboration with the United Kingdom, Sweden and the Netherlands) which was designed collaboratively between the Tanzanian authorities and the donors with UK-funded technical assistance, and (ii) three Danida-specific components (market access, improved labour market and viable commercial banking and financing) which complement the bilateral business activities of the other three donors, who will regularly monitor and co-ordinate their joint efforts.

This set of donor business support activities will focus on the institutional setting for business and the capacity of local business to function within it. As is often the case with Danish development assistance, this work is seen to be a "long-haul" programme and one that will necessarily evolve with the changing realities of the sector and government's attitude toward business development. BSPS II is a major step that Danida believes now must be taken if Tanzanian development can ever aspire to being sustainable.

Danida is also actively trying to promote relations between Danish companies and the private sector in developing countries:

- i) The Private Sector Development programme (PSD) has been managed by Danida since its inception in 1993. PSD links Danish companies with companies in the developing world with the objective of forming commercially viable partnerships. The joint ventures are eligible for funding support of such activities as market studies or training. A recent evaluation of PSD suggests that it is highly appreciated by Danish and recipient country private enterprises, but that the development impact of the Programme has been limited.

- ii) The Danish Import Promotion office (DIPO) aims to increase Danish imports from developing countries by providing information to parties from both sides (exporters and importers). DIPO is a collaboration between Danida and the Danish Chamber of Commerce.
- iii) Since 1993, Danida has managed a mixed credit programme. It was conceived at the time to be specifically compatible with the 1992 OECD Helsinki Arrangement to ensure consistency with aid delivery objectives while avoiding trade distortion. Programme funding attained DKK 275 million in 2002. In the same year, Danida launched an innovative, untied mixed credit pilot scheme, which, if successful, can be expected to grow in the future.
- iv) An Industrialisation Fund for developing countries (IFU). The IFU gives advice and equity capital or loans for joint ventures between Danish companies and companies in the developing countries. The IFU is formally an independent unit but its managing director and board are appointed by the Minister of Foreign Affairs. Host countries of investments must be on the OECD's DAC list of development aid recipients. IFU equity capital attained a total of DKK 1.9 billion in 2001. Normally the IFU participates in the joint venture for six to ten years, then withdraws, sells its shares, and the resulting funds are made available to new project investments.

Both the Confederation of Danish Industries (DI) and the Danish Agricultural Council support a number of their counterparts in developing countries. DI has been involved with organisational capacity building since 1998 and is currently active in seven developing countries. The confederation is acutely aware of the importance of the private sector for achieving economic and social development and is concerned that not enough consideration is being given to the business environment in developing countries. It is their hope that, with the help of business associations, governments will pay more attention to conditions for the corporate and small business sector. The Danish Agricultural Council has more recently begun to work in developing countries and is currently involved in Uganda and Vietnam. Since the Council has had positive experiences, it will probably expand its efforts.

Trade development is an area that is closely linked to the business sector and since the launch of the Doha development round it has become a priority area for Danish ODA. A new Danida strategy was presented in 2002. The strategy includes three main points:

- i) Technical assistance to strengthen negotiation capacity for developing countries in, for example, the World Trade Organisation (WTO).
- ii) Institutional capacity building in programme countries.
- iii) Work to ensure that what is being produced is "tradable". Traditionally, Danish development assistance to trade capacity building has been provided chiefly through multilateral organisations such as the WTO and International Trade Centre (ITC).

Health and HIV/AIDS

The link between poor health and poverty is strong and is regarded as one of Danida's priority areas. More than half of the assistance allocated to health is used to support basic health. SPS is often the preferred modality in the health sector. In 2002, Danida formulated a new strategy for dealing with the problem of HIV/AIDS. Although it is not formally one of Danida's crosscutting issues, it is being treated increasingly as such. One of the main recommendations in the new HIV/AIDS strategy is that Danish activities should be synchronised with recipient country AIDS strategies and, wherever such a strategy is not in place, encouragement and support for its formulation should be a high priority.

Denmark

Education

Danida has only a few SPS actions in education, despite its interest in being involved in this field. Active education programmes in 2002 were fewer in number, in part due to the withdrawal of Danida from Malawi and Eritrea and to the reduction in support to UNESCO in the same year. Danida is now discussing the possibility of initiating SPS in education in other countries, because it has competence in the area that currently is not utilised. Another reason is that Denmark wants to maintain a certain “portfolio of sectors”, especially with respect to the 20/20 initiative. More than half of the budget on education is spent on primary education and special attention is given to the education of girls.

Water and Sanitation

Water and sanitation is one of the most frequent sector programmes and in 2001 it accounted for 4% of ODA. It is also an area in which Denmark believes that it has an international comparative advantage. In Bangladesh, for example, Denmark is largest donor in the water and sanitation field. Generally, Danish support includes giving basic information on the importance of good drinking water, sanitation and hygiene, drilling wells and removing arsenic from water (a special problem in Bangladesh). Danida also works with capacity building for water directorates and sometimes co-operates with private actors.

Conflict prevention and humanitarian assistance

Conflict prevention became a priority area for Danish development co-operation in 2001. This was justified based on the recognition of the fact that conflicts in or between developing countries pose a threat to world security, and because of the impact of conflict in hindering the sustainable development of several of Danida’s programme countries (see Box 9 for an example from Tanzania). Danish efforts in conflict prevention are performed both bilaterally and multilaterally (*e.g.* via UN, EU, NATO and OSCE and regional organisations in the developing countries). Due to the recent Danida focus on this area and the difficulties inherent in trying to predict the site and causality of conflict, the activities to date have been carried out primarily on an *ad hoc* basis.

Denmark has a long history of being active in **humanitarian assistance**. Its assistance is provided chiefly through a small number of fairly large Danish NGOs, various UN agencies such as UNHCR, WFP and UNICEF and the International Red Cross. In 2001, an equivalent of USD 186 million was allocated to humanitarian assistance. The Ministry of Foreign Affairs chairs a “Humanitarian Contact Group” with broad representation from ministries (including the Prime Minister’s Office, Defence, Justice, the National Civil Protection Agency) and relevant Danish NGOs. The forum is open and meets several times a year, both in connection with discussion of crisis situations (*e.g.* Iraq, Afghanistan) and to discuss broader issues of strategy and principle.

Cross-cutting issues – Environment, Gender and Democracy and Human Rights

Danida officially maintains three cross-cutting themes as areas of special priority and which should be mainstreamed in all Danish development activities: **environment, gender and democracy and human rights**.

Box 9. Danish programme for assistance to refugee affected areas -- the Tanzania case

The Danish government recently allocated development funds for refugees and internally displaced people in their home countries and in the refugee affected areas of developing countries that receive them. The programme differs from the humanitarian assistance provided through the UN agencies – which focus on support for basic needs such as food, shelter and security. These funds are supplemental to previously announced development assistance levels to the recipient country.

Tanzania has long hosted a significant number of refugees and was one of the countries earmarked for this assistance. Beginning in 2003, a total of DKK 60 million will be spent on a refugee support programme over three years. The programme will include both humanitarian assistance and more long-term activities. The programme will include long-term support to help them become more economically self-sufficient and to prepare them for repatriation through targeted support such as vocational training. Activities are designed to reduce poverty within the refugee groups, to mitigate negative environmental impacts and to help reduce and prevent conflicts.

The programming process used for this activity provoked criticism from some local authorities because refugee assistance is not part of Danida's collaboratively developed and approved strategy for Tanzania and because the funds were allocated with little advance notice. Danida, however, points out that this support is provided as a supplement to the financial frame for the Danish Country Strategy in Tanzania and that its support will be provided in line with the sector policies and strategies of Tanzania and those of Danish development policy.

Environment

Environment is treated both as a crosscutting issue and as an area for sector programmes. The necessity of mainstreaming environment in order to achieve greater impact and sustainability is widely accepted in Danida and environment has had the status of a crosscutting issue since 1988. At the time of the Rio Conference in 1992 considerable attention was given to the global challenges facing the environment. Shortly thereafter, Danish Parliament voted to appropriate funds each year for environmental and disaster relief efforts in developing countries and Eastern Europe. The fund, which today goes under the name of MIFRESTA (The Environment, Peace and Stability Facility), was set up originally to increase yearly until it reached 0.5% of GNP (this was in addition to the ODA objective of 1% of GNP). MIFRESTA's funds are dispatched on the basis of the formula of 50% to disaster relief, including costs related to reception of refugees and asylum seekers in Denmark and 50% to environmental assistance. For several years, the environmental assistance assigned to developing countries (25.5% of MIFRESTA's fund) was administrated partly by Danida and partly by DANCED, the Danish Co-operation for Environment and Development situated within the Ministry of Environment and Energy. During the nineties environmental assistance increased in volume and in 2001 there were active programmes in more than 17 developing countries, clustered in Southern Africa and South East Asia.

The new government made several changes to environment assistance programmes. DANCED activities were moved to the Ministry of Foreign Affairs and the amount allocated to environmental assistance was reduced by DKK 500 million in that year. The cutbacks were most significant in Vietnam, Tanzania, Zambia, Laos, South Africa and Thailand. The main reasons given by the government are the following: i) questionable political conditions in some countries (notably Laos, Lesotho and Swaziland); ii) some countries that DANCED was involved in are too wealthy to coincide with Danida's focus on poverty reduction (*e.g.* Thailand and Malaysia); iii) several countries showed a lack of interest in environmental issues and/or did not have enough capacity to absorb the Danish environmental assistance that had increased rapidly during the 1990s. These specific projects and programmes on environment should, however, not be confused with Danida's efforts to treat environment as a crosscutting issue, which have not diminished.

Denmark

Gender

Partnership 2000 states that “Denmark’s development policy shall promote equality between men and women and help ensure equal participation of both genders in the development process”. Gender is primarily looked upon as a cross-cutting issue. The real challenge is therefore to incorporate gender awareness in all sectors, ranging from education to road construction. In view of the mainstreamed nature of gender work in Danida the ministry does not keep any specific statistics on gender issues. The work, however, is assessed in the context of SPS. As with environment and democracy and human rights, Danida also undertakes individual programmes targeted at gender issues. The funds in question were additional to the country programme and formed part of a regional effort. A new strategy for gender equality in the Danish aid programme defines it as equality in rights, resources and voice in society. The new strategy is expected shortly. In 2002, as part of the development of the strategy, a supplement of DKK 70 million was allocated to five countries to develop new approaches to poverty reduction and gender equality. When Denmark held the EU presidency in 2002 during the Johannesburg Summit it also took the initiative of introducing gender-related concerns into the agenda.

Democracy and Human Rights

The respect for human rights and democracy is considered by Denmark as a goal in and of itself, but it is also a means of promoting sustainable development. This concept has been imbedded in the Danish aid programme since the Act on International Development Co-operation of 1971, but it has, over the last decade, become significantly more pronounced. In some cases, this area has been projectised, including activities to support democratic mechanisms for local elections, to promote the establishment of an ombudsman function, or to promote an independent media.

As Danida moves further from project support to closer collaboration with national authorities, the issue of local **corruption** is seen in the context of overall Danish efforts at sustainable development. Corrupt practices are of specific relevance to the provision of Danish sector and budget support funds. Drawing inspiration from the Partnership 2000 pledge to promote “... administrative practices free of corruption as an essential element in the creation of pro-poor growth”, Danida recently generated a five-year draft Action Plan to Fight Corruption (2003-2008), the country response to which will figure prominently in each Country Strategy. The Action Plan seeks to balance Danida’s concern about fiduciary risk with its focus on the developmental aspects of combating corruption and promoting good governance. To control corruption relating to Danish aid, Danida has a “zero tolerance” policy in relation to all persons, companies or partner institutions that manage Danish development funds. In a more developmental direction, Danida is expected to maintain a regular dialogue with all partners. It actively works to identify issues of institutional corruption and to help build capacity within the partner systems and to reform the national policies needed for effective corruption prevention and control.

Future considerations

- Denmark has been at the forefront in the use of **sector-based approaches** and has had substantial experience in operationalising them in ways which enhance local ownership and partnership. It would be useful for Denmark to undertake some comprehensive “lessons learned” analysis that could be subsequently shared with colleagues in the DAC. Well-documented feedback on the conditions under which Denmark has or has not succeeded in using sector budget support modalities would be similarly welcome.
- Denmark is one of a small group of donors to emphasise pro-poor growth and priority support for the **private sector** environment in developing countries. The DAC would benefit

considerably from an ongoing feedback on the extent to which this is a strong theme for government-led development co-operation and the conditions under which such a private sector approach can work.

- Denmark is encouraged to establish a clearer policy concerning the use of governance and human rights considerations as the rationale for **exiting a priority country**, as such occasions could easily arise in the future. Depending on the context, a different type of engagement may be preferable to total developmental disengagement.
- The **short-term allocation** of development funds essentially motivated by Danish domestic interests should be avoided wherever possible. This type of activity is often not sustainable, does not fit with Danish principles of partnership, and can be disruptive to carefully laid out country strategy.

CHAPTER 4

POLICY COHERENCE FOR DEVELOPMENT

The consensus on enhancing policy coherence for development

The OECD and its members recognise that sustainably reducing poverty in developing countries and attaining the MDGs will require mutually supportive and coherent policies across a wide range of economic, social and environmental issues. When agreeing to the “Action for a Shared Development Agenda” in 2002, OECD members acknowledged the importance of industrialised countries giving increased attention to the impacts of their policies on developing countries. This built on undertakings previously made within the DAC to elevate policy coherence for development as a general concern in government policies and to develop the necessary means for promoting it across government and within international fora.⁸

As for other DAC members, enhancing Danish policy coherence for development can be a major challenge because the specific issues commonly involve domestic interest groups and government agencies with primary interests and responsibilities other than that of reducing global poverty. Four issues of special interest for Denmark – promoting inclusive globalisation, reforming agricultural policies, providing asylum to refugees and untying aid – are discussed in the following section. As these examples show, Denmark is supportive of actions within international fora that promote policy coherence for development while moving towards greater coherence in its own national policies. These examples also demonstrate that efforts by Denmark and other European Union member states to enhance policy coherence for development require them to act at both the national and European Union levels because competency in some key policy areas (such as trade) now rests with the European Commission while some other policies (such as foreign and security policy) reflect common positions formulated through consultative processes within the European Union (see Box 10). Within the European Union, member states can use their influence, individually or in strategic alliances, to enhance policy coherence through their participation in the various European Union institutions. The rotating presidency of the European Union provides each member state with a special opportunity to move matters forward in areas it considers important.

Examples of policy coherence issues for Denmark

Promoting inclusive globalisation

Denmark is committed to promoting inclusive globalisation because it considers the integration of developing countries into the global economy a vital precondition for their increasing economic

^{8.} In 1996, when adopting the “Shaping the 21st Century” strategy, DAC members collectively set out their aim to assure that the entire range of relevant industrialised country policies are consistent with, and do not undermine, development objectives. The “Guidelines on Poverty Reduction”, endorsed by the DAC in 2001, highlighted the importance of overall coherence between the policies of OECD member governments as a key factor influencing the effectiveness of development co-operation policies.

growth and reducing poverty. Denmark pursues this objective by promoting the establishment of a rules-based international trading system founded on the principle of non-discrimination. The WTO is consequently a central instrument for advancing the trade and development nexus. Denmark took an active part in working for a favourable outcome for developing countries at the Fourth WTO Ministerial Conference in Doha in 2001. In its address to the conference, Denmark highlighted the need to lower the remaining barriers to exports from developing countries by opening up markets and reducing subsidies. As part of the lead up to the Fifth WTO Ministerial Conference in Cancun in 2003, Denmark is hosting a high-level meeting of trade and development ministers to discuss the Doha Development Agenda.

Box 10. Policy coherence in the European Union

Policies adopted by the European Union can have a substantial impact on developing countries, both positive and negative.

As a major trading bloc, market access is an obvious example of an area where policy formulation should consider repercussions for developing countries. To promote policy coherence for development, the recent “Everything but Arms” (EBA) initiative removed all quantitative and tariff barriers to the European Union market for exports from least developed countries (with the exception of arms, and bananas, rice and sugar for which transitional periods apply before full liberalisation occurs). However, like other developing countries, least developed countries may still have difficulty meeting various non tariff barriers, including rules of origin and sanitary and phytosanitary safeguards on agricultural trade. These become increasingly important obstacles as other trade barriers are removed.

Internal European Union policies, such as the Common Agricultural Policy (CAP) which helps to maintain rural livelihoods, can also impact substantially on development prospects in developing countries. The CAP subsidises agricultural production within the European Union. Overproduction is then disposed of in other markets through export subsidies, which depresses world prices. Subsidised European Union farm products can create unfair competition in local markets, including in developing countries where agriculture may provide livelihoods for the majority of people and where few alternative sources of income exist for the rural poor. European Union member states and the European Commission continue to negotiate reforming the CAP so as to reduce its trade distorting provisions.

For more than 100 developing countries, various formal obstacles to their participation in international trade have now been removed through their accession to the WTO. Nevertheless, to help them exploit the new opportunities created, Denmark considers that developing countries still need support from industrialised countries to strengthen their capacity to negotiate and implement trade agreements and to become better able to promote and defend their own trade-related interests. As part of its contribution in this domain, Denmark supports a range of multilateral agencies providing trade-related technical assistance. In particular, it has played an active role in the “Integrated Framework for Trade-Related Technical Assistance to support Least-Developed Countries”, including during the critical phase of setting up pilot projects. Denmark also recently funded a two-year research project “WTO Negotiations and Changes in Agricultural and Trade Policies: Consequences for Developing Countries” which aimed to identify specific interests and problems of developing countries related to WTO negotiations.⁹

Denmark was an active supporter of the European Union’s “Everything but Arms” initiative because it increases market access and creates pressure for further reforms to agricultural policies. Nevertheless, Denmark would have preferred no phase-in period for the sensitive agricultural products

⁹. Further information on the WTO Research Project and copies of the research papers commissioned are available from the Internet at: <http://projektweb.sjfi.dk/>.

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of bananas, rice and sugar and is ready to consider extending the provisions of the “Everything but Arms” initiative to other groups of developing countries. Denmark also placed the issue of better integrating developing countries into the global economy on the agenda of its presidency of the European Union (July to December 2002). In its statement on behalf of the European Union at the United Nations World Summit on Sustainable Development in Johannesburg in 2002, Denmark stressed the importance of increased trade and market access for developing countries and pledged continuing support for building up developing countries’ capacity to benefit from free-trade negotiations and increased market access.

Promoting inclusive globalisation created an institutional challenge for Denmark due to the involvement of several sector ministries as well as the Ministry of Foreign Affairs’ three substantive units (the North Group, responsible for European Union matters; the Danish Trade Council, responsible for trade policy and relations with the WTO; and DANIDA). In response, ministries involved have decided to meet weekly to share information and co-ordinate activities, an approach that Denmark could use to address other key policy coherence issues. Nevertheless, the fragmentation of responsibilities suggests that one entity, perhaps DANIDA, should take lead responsibility for promoting the development perspective in trade-related policy areas. This could help ensure that all relevant issues receive the attention they merit, including helping developing countries demonstrate compliance with WTO agreements, such as on sanitary and phytosanitary safeguards or reforming Trade-Related Aspects of Intellectual Property Rights on drugs that combat life-threatening and contagious diseases in developing countries. An outstanding issue, which Denmark recognises, is encouraging its trade attachés stationed in embassies in developing countries to focus more directly on development concerns. These staff could, for example, help identify opportunities for promoting exports to Denmark from poor countries.¹⁰

Reforming agricultural policies

As an integral part of its broader trade and development agenda, Denmark attaches high importance to reforming trade-distorting aspects of industrialised countries’ agricultural policies. A key objective is to secure appropriate reforms to the CAP which, in its current form, Denmark considers unsustainable in the European context and damaging to developing countries (see Box 11). The government and the Danish Agricultural Council broadly agree on the desirability of liberalising agricultural trade and the need to use alternative and administratively less complicated means of providing support to agricultural and rural areas of the country (principally by switching to providing income support to farmers). In part, this shared support for CAP reform comes about because large sections of the Danish agricultural industry currently receive few direct subsidies, especially pork producers who have developed a niche market of high-quality, lean meat for export to Japan. On the other hand, Danish beef, dairy and sugar producers (see Box 12) may be adversely affected by reforms to the CAP. Several prominent Danish NGOs have also supported CAP reform, calling for better access to the European Union market for products from developing countries and an end to the dumping of surplus European Union agricultural products abroad.

^{10.} In comparison to its European Union partners, Denmark’s share of imports from poor countries is relatively low. In 2000, 0.3% of Denmark’s total imports originated in least-developed countries while a further 1.6% originated in other low-income countries. Around three-quarters of these imports were manufactures.

Box 11. An example of the development impacts of the CAP: Danish dairy exports

The dairy industry accounts for around one fifth of the value of agricultural production in the European Union. The industry is heavily supported as part of the CAP, with mechanisms to set minimum prices and restrict imports. Milk production is limited by a quota. As a result, the prices of dairy products are higher in the internal European Union market than in the world market, which stimulates production and creates an excess. The European Commission supports disposal of surplus dairy production in other markets using a system of export subsidies.

An example of the potential negative effects of the CAP on developing countries involves subsidised dairy exports to the Dominican Republic, the largest market for milk powder produced by Denmark's principal dairy co operative. Denmark's USD 15 million in CAP subsidies allows it to sell products abroad for less than production costs. This practice has a significant impact in the Dominican Republic where around 15 000 tons of subsidised milk powder exports each year from Denmark compete with liquid milk produced locally by small scale farmers. Dominican Republic authorities estimate that since the latter part of the 1990's several thousand small scale dairy farmers are no longer competitive in their own market.

Box 12. Sugar production in Denmark

Sugar production is highly regulated in the European Union by means of a regime based on a combined quota, price and levy system, coupled with controls on the import and export of sugar and sugar-containing products. This policy results in the price of sugar in the European Union being two to three times higher than the world price. It also results in excess production, which is disposed of in other markets, including developing countries, through a system of export subsidies. At the same time, the European Union has committed itself to import approximately 1.5 million tonnes of cane sugar each year from 17 former colonies or overseas territories of member states at the prices prevailing within the European Union.

Denmark's sugar industry is mostly export oriented, with only 16% of production sold in Denmark in 2001. However, Denmark is a high-cost producer and refined sugar from sugar cane can be produced in some developing countries at perhaps one third the cost of production based on Danish sugar beets. Much of Denmark's sugar production consequently benefits from European Union export subsidies and is sold in other markets which developing countries could otherwise supply competitively.

Since 1989, only one firm in Denmark has produced sugar. Although Denmark's quota for sugar production is less than one twentieth of the European Union's total annual quota, the company's dominant position domestically has arguably provided it with a solid basis for expanding rapidly internationally to become the largest sugar producer in northern Europe and one of the five largest in the European Union. Implementing reforms to the European Union's sugar regime will potentially have a significant impact on business interests within Denmark, as well as on Danish sugar beet growers.

Denmark was a leading proponent of CAP reform at the 1999 European Council meeting in Berlin where negotiations on a series of major reforms were concluded. Denmark also worked successfully during its recent presidency of the European Union to separate agricultural reform issues, viewed as an imperative in its own right, from questions related to expansion of the European Union. Denmark welcomed the proposals made by the European Commission in January 2003 to reform the CAP by directing spending away from production-linked subsidies towards more income support and rural development. Denmark would have been prepared to support other changes on this occasion, including in the largely unreformed dairy and sugar sectors.

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Views differ among European Union member states on the extent to which the CAP in its present form undermines development in developing countries and on how best to reform the CAP. Denmark has a number of allies within the European Union who are also pressing for reforms to agricultural policies. This shows the importance of the different entities within the Danish government being well co-ordinated so as to forge alliances with other member states who share Denmark's view while, in parallel, actively pursuing reforms within the various European Union institutions.

Providing asylum to refugees

The platform of Denmark's coalition government included policies to stem the flow of incoming foreigners and to make state welfare for them less generous. The government has introduced a package of reforms to Denmark's immigration laws, most of which took effect on 1 July 2002. Among the changes introduced, a more restrictive definition of "refugee" was adopted and lodging a claim for asylum has been made more difficult because Danish embassies and consulates are no longer permitted to accept applications. Under another modification, asylum seekers and other migrants now need to wait seven years before receiving permanent residency status and becoming eligible for full unemployment benefits.

In parallel to changes taking place in Denmark, developments within the European Union resulted in a common position on the separate but closely related issues of asylum and immigration becoming more of a reality. In Seville in June 2002, the European Council agreed to measures to combat illegal migration and to integrate immigration policy into the European Union's relations with other countries. The European Council highlighted the policy coherence aspect of these issues, pointing out that closer economic co-operation, trade expansion, development assistance and conflict prevention are all means of promoting economic prosperity in developing countries and thereby reduce the underlying causes of migration flows.

Denmark worked actively during its presidency of the European Union to implement the conclusions of the Seville European Council meeting on asylum and immigration policies. Results achieved during its presidency included: the adoption of new rules determining which member state is responsible for processing an asylum application; agreement on a common definition of "refugee"; and the adoption of a clause regarding the readmission of rejected persons and illegal immigrants, to be included in future co-operation and association agreements with other countries. Denmark built on the emerging realisation that tackling the root causes of illegal migration is in the European Union's long-term interest to foster debate on the links between migration and poverty reduction. This contributed to increasing understanding that dealing with refugees is a global issue requiring a concerted multilateral response.

The government's 2002 review of Danish ODA stressed the need to promote coherence between refugee and development assistance policies and Denmark has subsequently been promoting a more multifaceted approach to asylum seekers, including at the European Union level. Nevertheless, stricter policies on asylum seekers can take effect almost immediately while a considerable time lag is inevitable before the underlying causes of migration flows can be addressed in developing countries or the capacity of developing countries to provide an adequate safe haven to asylum seekers is reinforced. During this transition period, extra vigilance may be required to ensure that changes do not inadvertently result in undesired consequences, such as increasing suffering by genuine refugees or increasing pressures on illegal migration.

Untying aid

The Danish government fully recognises the advantages of untying aid from a development perspective.¹¹ At the same time, some parts of Danish society reflect the view that its high ODA/GNI level has, in part, been built on the direct benefits to Danish industry and involvement of Danish civil society in the aid programme. From 1989 (when Denmark discontinued its programme of tied development loans) until recently, Denmark reconciled these diverging positions by pursuing a policy of “**informal tying**”. The objective of this policy, which was verified *ex post*, was to ensure that procurement of goods and services from the Danish “resource base” – *i.e.* trade unions, farmers’ associations, private industry, academics, consultancies, churches and other NGOs – amounted to about 50% of total bilateral assistance.

Denmark no longer pursues its “informal tying” policy. The move away from a project-based approach, coupled with the continued increase in Danish bilateral ODA being provided directly to partner countries as part of sector programme support, has made the 50% objective unworkable. In parallel, the Confederation of Danish Industry, which had been a strong supporter of the informal tying policy, has placed increasing emphasis on corporate social responsibility and helping to lay the basis for future demand for Danish products. It is promoting new approaches to engaging in developing countries to improve the business environment, including, for example, supporting business confederations in selected developing countries, already mentioned in Chapter 3. Work has also taken place within the European Union and the OECD to enhance the effectiveness of development co-operation programmes by further untying. Denmark has supported these international initiatives in principle but has taken care to ensure that its strong ODA/GNI performance and its already comparatively high share of untied aid would be taken into account. In Denmark’s view, its untying efforts have been completed for the foreseeable future by its untying with respect to other EU countries, described in the following paragraph. It has been reluctant to untie because of what it sees as a lack of balance in donor untying to date. It believes that further untying of Danish ODA should be matched with greater efforts by other donors, for example by an increase in their ODA levels or by untying other components of their aid programmes beyond formal requirements.

Untying **European Union** aid – both the European Community’s own aid and the bilateral aid disbursed by European Union member states – has become a priority issue for the European Commission. The Commission recently reminded some member states that the tying of aid breaches treaty obligations on the internal market and that procurement in their aid programmes must adhere to the European Union’s tender regulations. Denmark announced in February 2003 that it will adopt the European Union’s directives for the procurement of goods, services and building and construction work in its aid programme, with effect from 1 January 2004. In practice, tendering will be opened up to firms from other European Union member states when a contract value exceeds certain thresholds: approximately DKK 1.2 million for most procurement of goods and services and approximately DKK 46.5 million for building and construction work. This announcement on untying of aid with regard to procurement in other EU countries represented a significant positive shift in Denmark’s policy on aid untying and provides a solid basis for further untying Danish ODA.

Denmark’s revised official position on the tying of aid is linked to the “**Recommendation on Untying ODA to the Least-developed Countries**” adopted by the DAC in 2001. A central concern

^{11.} Tying aid to the procurement of goods and services from the donor country can reduce the cost effectiveness of aid, by limiting competition among suppliers, and undermine ownership of the development process by partner countries. The tying of aid may also increase costs to the partner country by as much as 20 to 30%. See: Jepma, Catrinus J. (1991); “The Tying of Aid”; OECD Development Centre, Paris.

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for Denmark during negotiations was its assessment that this recommendation could mostly benefit poor performing donors – *i.e.* those providing very low levels of ODA to least-developed countries. Ultimately, Denmark could support the recommendation and undertake an additional effort to untie aid to least-developed countries. In this connection, it was crucial that a Reference Indicators Matrix¹² was set up to monitor and assess the progress made by DAC members towards more balanced effort sharing. The OECD notes that Denmark has not yet untied all components of aid covered by the DAC recommendation, and is one of only five DAC members known to have not yet fully complied with it.

Another indication of Denmark's evolving stance on aid untying occurred in May 2002 when a pilot programme of untied mixed credits was introduced, to complement the on-going tied mixed credit scheme. This approach could be extended to some other components of the Danish ODA programme that essentially remain reserved for Danish industry and society, such as NGO financing, the Private Sector Development Programme and consultant trust funds with international development agencies. In addition, to implement fully the DAC untying recommendation, Denmark needs to open up procurement to firms from countries that are not members of the European Union. Danish industry and civil society could gain from and should support further untying of aid because this will expand access to procurement opportunities in other DAC members' aid programmes. Danish industry and civil society have already demonstrated their competitiveness in developing country markets by their strong record of supplying goods and services to multilateral agencies – contracts from Danish suppliers amounted to 81% of Denmark's total multilateral assistance in 2000.

Enhancing policy coherence

The challenges and complexities associated with making policies coherent across government and within the European Union highlight the importance of DAC members being well organised to address policy coherence issues. In the Danish context, the merger of DANIDA into the Ministry of Foreign Affairs in 1991 was an important step towards greater policy coherence. However, as the previous examples demonstrate, policy coherence issues go beyond the traditional responsibilities of a foreign affairs ministry and suggest the need for strengthened links between the Ministry of Foreign Affairs and key sector ministries. In line with proposals on policy coherence presented in the "DAC Guidelines on Poverty Reduction", Denmark could consider the following ways to address more formally and systematically the effects of broader government policies on developing countries.

Communicate commitment by the highest political authorities

The Danish prime minister made a clear statement in favour of policy coherence for development during the run up to the United Nations Conference on Financing for Development in Monterrey in 2002. This statement¹³ urged rich countries to analyse the collective impact of their policies on supporting development, particularly in the area of trade where improving market access could bring far greater income to developing countries. Similarly, "Partnership 2000" recognised that trade, investment and debt are critical policy areas for putting developing countries on the track for sustainable development. Nevertheless, while "Partnership 2000" aims to strengthen the interaction

^{12.} The Reference Indicators Matrix contains two elements: the Bilateral Least-developed Country ODA Untying Ratio and the Effort-sharing Composite Index. To provide an indication of DAC Members' initial positions prior to the untying recommendation becoming operational on 1 January 2002, these two elements have been calculated using data from 1998 to 2000. Denmark's bilateral untying ratio was 0.768, the fifth highest in the DAC, while its composite index was 0.271, the highest in the DAC.

^{13.} Published in the "International Herald Tribune" on 21 March 2002. The statement was co-authored by the prime ministers of Denmark, Luxembourg, the Netherlands, Norway and Sweden, the five DAC members whose ODA/GNI ratio exceeded the 0.7% target in 2001.

between Denmark's bilateral and multilateral development co-operation as a means of helping to promote the integration of developing countries into the global economy, it does not make a strong statement of endorsement of policy coherence for development as an objective for the Danish government. Strong commitment to pursuing policy coherence for development can never be taken for granted, as demonstrated by the recent support from the Danish Minister for Food, Agriculture and Fisheries for proposals to delay the removal of European Union farm export subsidies. Future documents presenting the strategic underpinnings of Denmark's development co-operation could consequently usefully give more prominence to policy coherence for development as a government-wide objective and highlight its central contribution to improving the effectiveness of Danish ODA.

Expand parliamentary involvement

The Parliament's Foreign Affairs Committee takes an active interest in Denmark's development co-operation programme. Like other standing committees, its sphere of competence largely corresponds to that of a ministry, in this case the Ministry of Foreign Affairs. However, as policy coherence for development necessitates assessing the impact on global poverty reduction of non-aid policies pursued by other ministries, the Foreign Affairs Committee could expand its deliberations further to assess non-aid policies with substantial potential impact on development prospects in developing countries. These assessments could be carried out jointly with the Parliamentary committee directly concerned. Similarly, the Foreign Affairs Committee's examination of Bills could be extended to include legislation referred to other standing committees that also has substantial potential impact on developing countries. The Ministry of Foreign Affairs could support these deliberations.

Establish consultation mechanisms

Denmark's small size and consensus culture promotes a rich network of informal contacts across government agencies and with specialists from a range of academic, civil society and other specialised groups. Nevertheless, to ensure that policy coherence is achieved in practice, Denmark could also establish formal mechanisms for consultation and the exchange of information within, across and even outside of government agencies on policies at both the national and European Union levels. Such mechanisms could be established on an on-going basis for key policy areas or as special task forces for emerging issues. The prime function of these mechanisms would be to network with most knowledgeable Danish expertise so as to mitigate the effects of conflicting government policies and, to the extent possible, resolve contradictions. Another approach adopted in some other DAC members is to introduce a formal requirement that the aid ministry review proposed legislation or documents being submitted to the Ministerial Cabinet for their development coherence.

Enhance staff capacity

Danida staff can play a key role within government co-ordination and consultation systems as advocates for development objectives. As in other DAC aid agencies, Danida needs to ensure that it has sufficient numbers of appropriately trained, experienced and available staff who can persuasively bring development perspectives to discussions on broader policy issues with substantial repercussions for developing countries. The proposed decentralisation of management of Denmark's aid programmes in its main partner countries will free up desk officers in Copenhagen to address more strategic issues, including those of policy coherence. However, for these staff to have substantial impact, they will need skills and appropriate training to analyse non-aid policies from a development perspective. They should also remain in their posts long enough to form solid partnerships with other key government agencies. This would contribute to achieving pro-development results even when

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difficult trade offs need to be made. To complement the contribution of desk officers, comparative DAC experience suggests the value of establishing a specialised unit dedicated to analysing the impact of non-aid policies on developing countries and bringing these insights to the attention of the appropriate fora across government.

Conduct assessments of the impact of policies on developing countries

To complement other efforts, Denmark could commission independent assessments of specific policies adopted in Denmark and by the European Union to determine their impact on development prospects in developing countries. These assessments could help highlight areas where priority attention is required or be used to monitor the results of changes in policy.

Future considerations

- Denmark has demonstrated a strong interest in promoting **policy coherence for development**, but has yet to establish the policy framework to facilitate work in that direction. Greater clarity in framing the Danish perspective on this topic will be important to setting up a future operational approach to issues of development incoherence. Elements of such a statement could include suggestions for better interacting with extra-governmental structures (*e.g.* Parliament or civil society), for setting up mechanisms of development policy co-ordination within government and for designating the roles and responsibilities of those expected to be in the forefront of this effort.
- As the preponderant 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. It could play a more proactive role in substantive interchange with civil society and in supporting the coherence initiatives of Parliament. More proactive leadership will require reinforcement of Danida capacity to work in the policy coherence area.
- Despite Denmark's revised policy on aid tying and its solid recent progress in **untying** aspects of its ODA programme, the outlook for Denmark's full compliance with the DAC recommendation merit clarification.

CHAPTER 5

ORGANISATION AND MANAGEMENT

Rationale for organisation and management change

The change of government in 2001 had an impact on the organisation and management of Danish development co-operation. The government's 2002 review of Danish development co-operation¹⁴ stressed the need to focus Danish aid better to make it more efficient. At the level of the field, (see Section 5.3.1.) it agreed to permit further delegations of authority to embassies and greater emphasis on recipient country ownership of Danish aid programmes. At the level of Copenhagen, and as previously noted, it led to a series of decisions to reduce DKK 1.5 billion from the 2002 budget, to reduce the number of priority countries to 15, and to reshape parts of the administration of Danish aid, including the transfer of international environmental programmes to the MFA, the consolidation of Danish research institutions, and the elimination of a number of advisory committees, which were declared redundant. The debate on efficiency also led the government to carefully review evaluation functions of the aid system. The operational contours of Danish aid organisation and management reforms are, therefore, still in the making, although most decisions on the nature of reform are already known.

Organisation of Danish aid

Danish development co-operation, illustrated previously in Figure 1, is a remarkably compact and centralised organisational system. Compared with other DAC member's aid systems, it is noteworthy in two dimensions: i) The Danish government is heavily responsible for almost all Danish ODA funds and almost exclusively leads its strategic and operational decision-making. Danish NGOs, for example, are much less present and influential than is true in many other aid systems. ii) Within the Danish government, virtually all leadership and implementation is highly concentrated in one of three internal departments of the Ministry of Foreign Affairs. This organisational arrangement appears to permit Denmark to have a co-ordinated and efficient system, albeit one which sometimes can appear too "closed" and exclusive to some of its partners outside government.

Ministry of Foreign Affairs

The Ministry of Foreign Affairs (see Chart 1) is divided into three major administrative units, the North Group, the South Group, and the Danish Trade Council, all of which are supported by an Administrative and Services Secretariat. The focus of Danish development co-operation is totally contained within the South Group. More specifically, the South Group is responsible for Denmark's relations with the countries in Africa, Asia, Latin America, the Middle East, and the Pacific (except Australia, Japan, and New Zealand) as well as bilateral and multilateral development cooperation. The South Group is led by a career civil servant at the State Secretary level who reports directly to the Minister of Foreign Affairs. Within the South Group, two Undersecretaries are respectively responsible for overall bilateral and multilateral policies. As noted previously, MFA staff commonly use the name "Danida" to represent Denmark's official institution of development co-operation.

¹⁴. "Summary of the Danish Government's review of Denmark's official development assistance and environmental assistance to the developing countries", January 2002.

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Pragmatically speaking, because Denmark's foreign policy toward most states in the "South" is essentially oriented to development co-operation, it is estimated that the term "Danida" relates to perhaps 90% of the activities and staff of the South Group.

Aid responsibilities within the South Group are jointly managed by the geographic department (Southern Africa; Eastern, Western and Central Africa; Asia; Southeast Asia; Middle East, Latin America and Northern Africa) and the concerned country Embassy. As Denmark increasingly decentralises responsibilities to the field, it is expected that geographic Desk Officers will progressively shift their activity from operational tasks to those of more a strategic or policy nature and the technical staff located in the Technical Advisory Services (TSA) unit will increasingly work at the request of embassies. The TSA unit currently is composed of six different technical groups in agriculture/fisheries/forestry, water resources, social sectors, infrastructure, economic policy/social development/indigenous peoples, and environment.

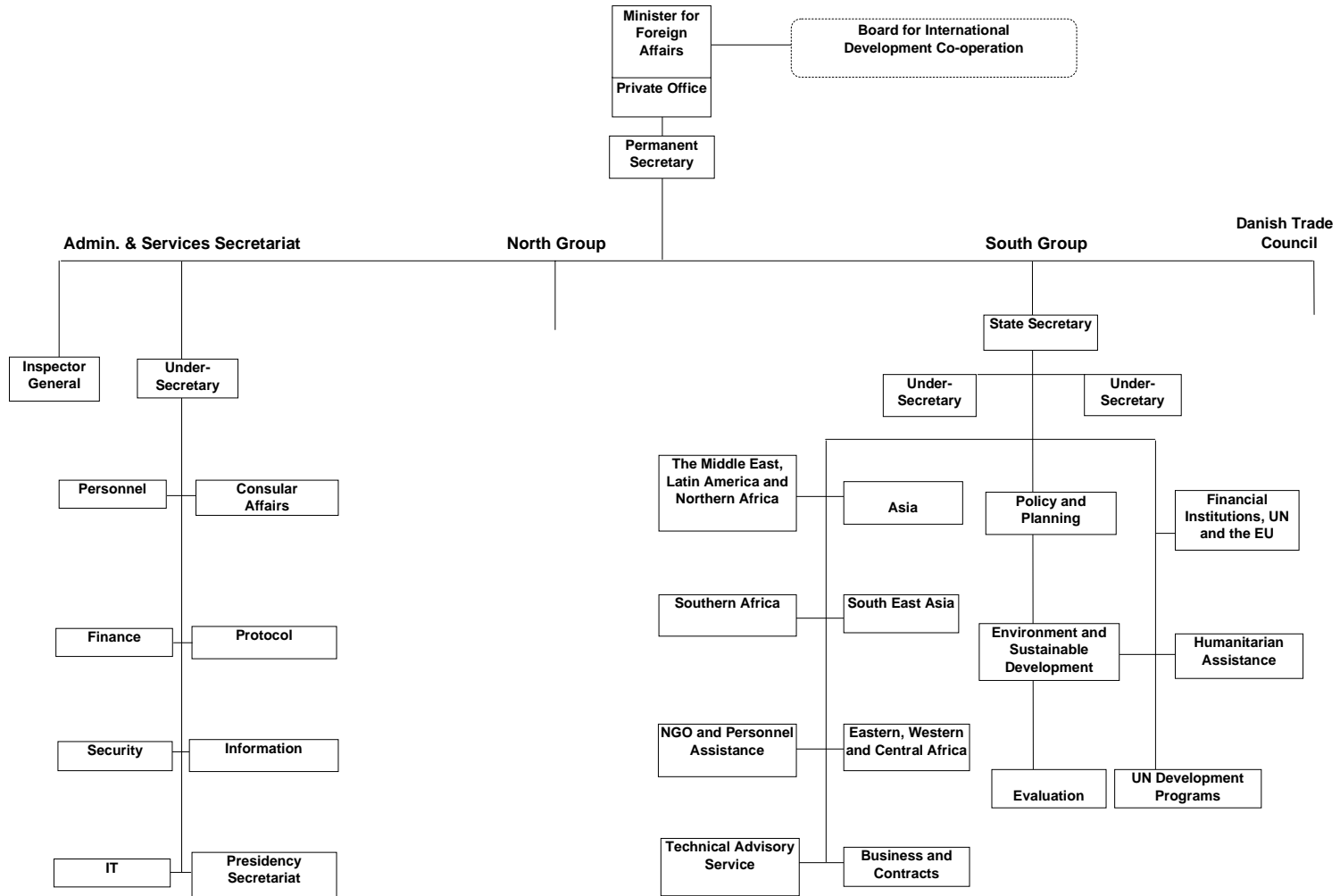
Finally, a number of external administrative and consultative bodies assist Danida in carrying out its responsibilities. These bodies are generally legislatively mandated and their membership appointed by the Minister of Foreign Affairs.

- i) Perhaps the most influential is the **Board of International Development Co-operation**, a group of nine eminent Danish personalities from different walks of life outside of government who meet monthly and report directly to the Minister on matters of development co-operation. Responsibilities can be assigned to the Board by the Minister, but are generally limited to the review of new country strategies, sector programmes or activities. Field programmes that have a value of more than DKK 5 million must be approved by the Board.
- ii) Another, less active advisory body is the **Council of International Development Co-operation**, which is composed of some 50 experts on development. The Council discusses overall policy issues and other think-tank functions upon request and meets 3-4 times per year.
- iii) The **Council of Research** is an advisory body to the Minister and approves allocations of government funds for research activities in development. The Danish development research institutions themselves were reduced in number and merged in 2003 into a newly created collaborative arrangement called the Danish Centre for International Studies and Human Rights (DCISM).

The Ministry points out that the grouping of i) governmental responsibilities for development co-operation in the **South Group**, ii) European issues, security policies and relations with the Northern Hemisphere in the **North Group**, and iii) export promotion in the **Trade Council** was a deliberate organisational architecture decision to promote development policy coherence and co-ordination within government.

Finally, the **General Auditors Officer** periodically looks at important aspects of development co-operation, especially how the funds are spent. Most recently, it has voiced a strong opinion in favour of greater use of results-based management of funds.

Chart 1. Organigramme of the Ministry of Foreign Affairs



Source: Danida Website, 2003

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Non-governmental Organisations

Many Danish NGOs, businesses and trade unions take an interest in issues of development co-operation, but they often are not seen as taking active leadership roles shaping these issues. Some external observers commented to the Peer Review team that NGOs acted as if they were “extensions of the government”. This is plausibly because of their dependence on government funds to function. The approach used by the government in its collaboration with non-governmental organisations has been codified in the “Civil Society Strategy” within the Partnership 2000 statement. Six large NGOs¹⁵ have rolling, four-year framework agreements with the MFA to implement targeted development activities. They have considerable autonomy to implement these activities within the very general constraints of the framework agreement. Their activities must be within the framework of the Civil Society Strategy. Both the organisations and the activities they implement are regularly evaluated by the MFA. The major Danish NGOs appear to have a good working relationship with Danida, but they also express regret at their inability to be more autonomous.

The number of NGOs receiving Danida support for their aid activities has trebled over the last decade and now stands at around 90. The recent disappearance of the NGO Liaison Committee and of the regular public press conferences held by the former Minister of Development Co-operation have had the effect of cutting off alternative perspectives and regular dialogue from civil society. It would seem important for Danida to put in place a mutually acceptable system of communications and collaboration for this important segment of Danish society who collectively represent one of Danida’s major allies in the battle against world poverty.¹⁶ Danida leadership has suggested that the communication strategy it intends to put in place in 2003 will address this issue. The intent of the MFA to expand and develop the role of the broad-based Council of Development Co-operation, noted above, could be another constructive action to further network with lead non-governmental sources of development expertise.

Management change

Aid administration

The centralised nature of Danish development co-operation tends to favour a simpler and less redundant aid administration. Since 2002, the political perspectives relating to development are dealt with in Cabinet by the Minister of Foreign Affairs, who is actively assisted by the State Secretary. While this approach has diminished the political voice of development co-operation, it does not appear to have unduly affected the efficiency of development administration, including the downstream field management of the system. Day-to-day co-ordination of development co-operation issues takes place within a special “Management Council” and co-ordination of more strategic policy documents is usually assigned to special, *ad hoc* work groups or programme committees. In the recipient countries, co-ordination is the responsibility of the relevant Embassy which makes use of local structures of partner collaboration (see Chapter 6).

^{15.} DanChurchAid, Ibis, Danish Red Cross, CARE Denmark, LO-FTF Council, Danish Association for Development Co-operation (MS), and Save the Children Fund.

^{16.} Note that both DanChurch Aid and MS are represented on the Danida Board of International Development Co-operation.

In a major, new decentralisation initiative, Danida wishes to accompany the development of Poverty Reduction Strategies (PRS) and other forms of decentralised co-ordination of aid management in the field with a deepening of its own decentralised structures of administration (see Box 13). A special task force has made a number of suggestions for further decentralisation of development co-operation, including:

- Delegation of all responsibilities for identification, preparation and implementation of programmes.
- Allocation of greater responsibility in strategy and policy areas to the geographic desk officers.
- Establishment of a new “quality assurance” unit to strengthen performance management of both bilateral and multilateral assistance.

Task force recommendations should be in place by September 2003. Danish authorities believe that these measures will strengthen the competence and decision-making role of their embassies and will reduce the level of administrative redundancy experienced in the current situation.

Box 13. Decentralisation of Danida

In July 2002 Danida created a task force with the mission of preparing suggestions for the more precise structure and implementation of a new decentralisation strategy. The task force, which consisted of Danida officials posted in different parts of the world, presented its findings in October 2002. In its conclusions the task force stressed the importance of a clear division of responsibility between Embassies and headquarters. In the new system it will be Embassy responsibility to identify, prepare and implement aid activities and to do it within the framework of basic overall strategy documents such as the country strategy and Partnership 2000. New stages of Sector Programme Support will be developed together with the technical support unit, TSA, in Copenhagen. The Embassies will also communicate directly with the Danida Advisory Board (mostly through video conferences) and manage the relations with local and Danish media. The task force recommended that the country desks in Copenhagen have a more regional approach, focus on crosscutting issues and continue to be a link with the academic world. The task force advocated that a new (“Quality Assurance”) monitoring unit be created to collect and analyse the information provided by the Embassies, so as to ensure the accuracy of the data used by South Group management. Finally, the task force recommended that staff in the Embassies not only increase, but also become more adept in handling, the strategic requirements of the sector programming approach and the increasingly frequent and important policy dialogue with governments. Danida decentralisation is scheduled for completion on 1 September 2003.

Because of a current government-wide policy that caps expenditures, decentralisation will be undertaken with no increase in budget. The extra expense implied by the placement of extra Danish staff in the field¹⁷ will be compensated by decreases in the size of staff in Copenhagen. The Task Force on decentralisation has identified, based on pilot work over the last two years with four pilot embassies (Tanzania, Vietnam, Benin, Nicaragua) a “model” for development Embassy staffing: i) one Ambassador and one Deputy; ii) one Danish official and one local professional per sector; iii) one Danish official macroeconomist; iv) one Danish official and one local professional for institutional reform; v) one Danish official financial manager. Implementation of this profile on a world-wide basis means that an additional 15 Danish professionals will need to be transferred from Copenhagen to the field, including a number of staff from the TSA technical advisory group. Handbooks and guidelines will be rewritten as appropriate. Maximum use will be made of local professionals, both for quality and cost considerations. Experience with decentralisation elsewhere suggests the need for Danida to

¹⁷. From a budget perspective, Denmark estimates that two official posts in Copenhagen headquarters need to be eliminated to fund one Danish official and one local professional in the field.

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pay special attention to the establishment of strong communication and feedback links between headquarters and the field. Finally, Danida is currently working on a strategy for information and communication and expects to better articulate its thinking on communications with the field in that effort.

Management of strategy

Denmark has a well organised development strategy process, the procedures for which have been written up and standardised in handbook form. As alluded to previously, the Danish government engaged the Parliament, broader Danish civil society and representatives of the aid recipient countries in a major debate on its strategy for development co-operation, which culminated in the production of a formal, national strategy entitled “**Partnership 2000**”. This was announced by the MFA as “the political foundation for Denmark’s development co-operation.” Despite its different political perspective, the new coalition government reconfirmed the framework status of the Partnership 2000 strategy immediately after taking office. Partnership 2000 explicitly lays out the Danish vision: an overarching objective of poverty reduction; a partnership approach as the basis for development co-operation; a cross-cutting focus on environment, gender, democracy and human rights; recognition of new challenges and opportunities on the horizon – globalisation, conflict, youth, HIV/AIDS.

Poverty reduction first became an official objective of Danish aid as early as 1994, but the concept has guided Denmark development co-operation since its beginning. The current government now explicitly states its aim “to promote sustainable development through poverty oriented economic growth”. The focus on poverty is not always evident in Danida’s operational strategies (*e.g.*, pro-poor growth is not explicitly defined, and linkages between trunk road construction and poverty are not always obvious), nor has this focus on poverty explicitly shown up in the organisational structure of Danida. Nevertheless, the poverty reduction objective is implicit in all Danida efforts. Among the staff and among the Danish public there is a consensus that poverty alleviation is the main reason for Denmark’s involvement in development co-operation.

Box 14. Partnership – a good basis for poverty reduction

"Poverty reduction is the overriding objective of Danish development policy. Denmark will contribute to reducing poverty in the world through long-term and binding partnerships with developing countries. The object of these partnerships is to strengthen the ability of the developing countries to create sustainable development processes that will benefit the poor. Denmark will base its development co operation on partners whose policies and activities create the necessary conditions for poverty reduction for the many rather than prosperity for a narrow elite."

Source: Partnership 2000

The logic behind the strategic approach contained in Partnership 2000 continues down through implementation. To maintain a realistic basis for strong partnership, Denmark will concentrate its bilateral assistance in a maximum of 20 “programme countries” (they currently number 15) and in a maximum of 2-4 carefully chosen sectors in each country, in which it expects to maintain a 15-20 year engagement. Each programme country has a **Country Strategy** which must be explicitly informed by the recipient country’s own national policies for sustainable development, including particularly the national strategy for poverty reduction. Denmark has a policy of strong support for country ownership of its aid programmes and systematically advocates the involvement of all stakeholders wherever feasible. Sector Programme Support (see Chapter 3) is the operational pivot point for co-operation and is a transition approach to gradual transfer of responsibility for implementation of activities and

administration of resources to the recipient country, be they government, private sector or civil society led.

Operationally, this approach leads to the collaborative production of individual Danida Country Strategy papers (5-6 year timeframes) and the subsequent accompanying sector and sector component documents. As previously noted in Chapter 3, sector approaches still vary widely, from simple assemblages of individual projects under a sector umbrella to more strategically framed sector programmes and budget support.

Human resource management

The Ministry of Foreign Affairs currently employs 283 persons in the South Group in Copenhagen headquarters, not including 131 headquarters administrative staff who work an unmeasured portion of its time for the South Group but are located in the Administrative and Services Secretariat of the Ministry. The Ministry also employs 151 diplomats and project staff in the field embassies, who are augmented by 263 local employees, both support and professional staff. Danida views decentralisation as its greatest current personnel management issue.

According to press reports at the time of the writing of this report, proposals for a DKK 87 million reduction in MFA administrative costs are now under consideration, including a possible DKK 40 million reduction in the administration of aid. If realised, this could translate into a major reduction in MFA staff and the efforts now underway to decentralise Danida staff would be particularly sensitive to such cuts in budget. If responsibilities for Danida operation are to be successfully decentralised in line with current planning, it will be important to shield the field missions from such difficult cuts, particularly in the critical 2003 transition period.

Monitoring and evaluation

The Danish system for monitoring and evaluation of development co-operation is currently addressing three interrelated challenges in monitoring, evaluation and results-based management.

A major new aspect of the Danish system for monitoring came after a recent review of the system and the suggestion to establish a “quality assurance” unit, already noted above. To ensure high level attention to the issues of results based management and the monitoring of new delegations to the field, the MFA expects to establish a special “quality assurance” unit with direct links to Danida leadership. This unit would develop performance based management indicators and undertake biannual programme performance reviews to determine if bilateral and multilateral programmes are moving in directions that are consistent with basic Danish development policies (*e.g.* the extent to which they are integrating cross-cutting issues, such as gender or HIV/AIDS).

Danida will undertake an annual “management review” of each Embassy, using indicators (*e.g.* sector output indicators, disbursement levels) generated collaboratively with the Embassy. Once every two years, Ambassadors send in a short report on progress on a variety of policy fronts (*e.g.* donor harmonisation, environment, gender, etc.) which is a major reference for the quality assurance process. Part of that submission also contains results information on each sector, including the trend in results over time. This reporting system is currently being revised to simplify the reporting and to better focus its use.

At the level of evaluations, the Danish system remains essentially similar to that extensively described in the 1999 Denmark Peer Review. Because of post-election concerns raised in Parliament over the impartiality of the system, the Minister for Foreign Affairs promised Parliament to produce a

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White Paper on the topic in early 2003. The White Paper concluded that Danida's current evaluation system is basically sound in comparison to generally accepted international evaluation standards. It also noted the progressive approach used by the Danish evaluation department in terms of dissemination of evaluation results, including, for example, the calling of a press conference to present the results of each new evaluation. No further modification of the system is currently anticipated.

Danida appears to fully understand the complexity of what is currently being asked of its various feedback systems. Issues feeding discussions in this area include: the new operational perspective offered by decentralisation and its importance for shaping the entire Danida management approach; the fact that monitoring, evaluation and results based management innovations are, for the moment, being piled one upon the other without the system integration and simplification that can only come with practice; the relatively weak understanding of the international community to date on exactly how to operate a simple, integrated, yet meaningful results based management system; the problems still associated with impact measurement at the level of PRSPs and MDGs.

Box 15. Special Review of Results Based Management – the Tanzanian Reality

Danida has reviewed the expanding set of requirements for monitoring, evaluating, and the newer interest in results-based management approaches and concluded that the basic responsibilities for these systems must be essentially located in the field.

In Tanzania, which has been one of three pilot missions to test out options for the world-wide Danida decentralisation to be completed in 2003, the specific issue of better integrating and simplifying these various inter-related systems is a major challenge for the future. Reporting responsibilities can be described at two levels:

- i) **Indicators internal to the Danish system:** This, more "internal", system is composed largely of Embassy-generated data. This includes (a) the VPS (annual indicators of the internal management of the Embassy), (b) the VPA (annual indicators of the performance contract between the Embassy and Copenhagen for development co operation), (c) the Project Data Base (annual reporting on individual activities which ultimately feed into the Annual Performance Report submitted to the Danish Parliament), and (d) the project or programme logframes (monitored on a quarterly/semi-annual basis to follow individual activity progress. The main challenges in this system relate to the need to better harmonise the different indicators, language (English or Danish), and reporting timeframes of each part of the system. In Tanzania, one major simplification has already been achieved by harmonizing indicators for both VPA and Project Data Base measurements.
- ii) **Indicators on local performance monitoring:** This system draws upon externally generated data, for which Danida has played a major supporting role in setting up. At its base is the Tanzanian Poverty Monitoring System (PMS) that proposes to track the actual impact of the jointly-owned PRSP process, including joint indicators (60 in all) for all development partners and relevant MDG indicators. The PMS will maintain an ongoing monitoring system that will be complemented by periodic (every two years or more) surveys by the Tanzanian National Institute of Statistics to measure impact. Importantly, it is intended that this information also be used by the local Embassy to feed into a new Danida "Results-oriented Management" approach (annual reporting to senior management on development progress, to begin this year). The Results-oriented Management system includes a variety of reporting on PRSP impact at the national and sector levels, and detailed reporting on local Danida achievements in the sector programmes. It will be required of all Danida programmes in the world, as of 1 October 2003. Challenges in this more Tanzanian led approach range from conceptual problems, such as difficulties in making attribution between the PRSP results and the Danida programme, or the fact that the Tanzania PRSP will not contain sufficiently convincing impact indicators and progress reports, to many more mundane local capacity issues, such as field enumerators who frequently make simple computation errors. Also, unfortunately, the most interesting PMS impact indicators will not be annual and do not fit the Danish reporting cycle.

Cont'd

In addition to the methodological difficulties noted above, a critical issue for the Embassy in Tanzania will be the future ability of its staff to implement these various monitoring and reporting requirements, while undertaking the already considerable weight of their regular development co operation responsibilities. This has already led to an active exchange of ideas among the staff, including thoughts on better integrating and simplifying the different systems, making greater use of external contract support, working more collaboratively with other like-minded partners, or – failing all else – simply doing less. Embassy staff stressed the importance of an informal and constructively engaged Quality Assurance Unit in Copenhagen as a facilitator for collaborative resolution of these approaches.

Local Danida staff commentary offered personal insight to the field realities of results systems in the poor countries that are the focus of Danish development co operation.

- **Results or sustainability emphasis?:** “Development co operation in poor countries is necessarily a long-term process. We cannot expect visible results in the short term and if we try to force the process our results become unsustainable. Also, don’t forget that our paramount objective of Tanzanian ownership requires time, as well!” “Over-emphasis on results favours the old-fashioned projects, such as infrastructure, where it is easy to identify the problem and make a quick technological fix, but which are not necessarily sustainable.”
- **Choice of indicators?:** “Some areas are easier to measure than others. Health and education are perhaps the easiest areas to devise indicators in Tanzania; democracy and human rights the hardest.” “Our indicators are yet too old-fashioned and don’t tell the developmental story. We need to find indicators that better reflect process oriented successes. For example, we have got certain districts to work better with the central government; we have achieved something important and opened an opportunity for greater sustainability!” “How do we deal with results based on rainfall? It’s the single most important indicator for poverty reduction in Tanzania!”

Future considerations

- As Danida **decentralises** operations and decision-making to the field, headquarters will have to rethink incrementally its shape and operational leadership roles in relation to a variety of partners. This could imply even stronger co-ordination responsibilities with political leadership in Parliament, and increasingly less intrusive management relationships with the decentralised field missions.
- Danida operates with a lean professional **staff** and business-like procedures. It is encouraged to develop a clear statement of personnel policy to guide its longer term decision making in this area. Also, it appears that current field staff is already at minimal levels. Every effort should be made to protect those levels from the current context of government wide staff reductions.
- Danida is among the front-line donors attempting to implement **results-based management** approaches to development co-operation. It also understands the operational challenges posed by the need to integrate feedback systems in ways which are simple yet convincing and which promotes optimal learning for Danish development management and the public at large. This is useful information for all donors and should be seen as an important “learning laboratory” of interest to the other members of the DAC.

CHAPTER 6

COUNTRY OPERATIONS

The content of this chapter draws extensively on the field visit to Tanzania made by the DAC review team from 1-13 March 2003 (see Box 16).

Box 16. Field visit to Tanzania

Tanzania's 34.5 million people live in one of the world's poorest countries, with an official per capita income of USD 270. About one-half are below 18 years of age and national life expectancy is estimated at 44 years. Perhaps 14% of the population live with HIV/AIDS. The majority (80%) lives in rural areas where poverty incidence is estimated at 57%. Simple smallholder agricultural systems account for some 80% of employment. Tanzania has proven to be an important refuge for those fleeing conflict in the nearby Great Lakes region and currently is home to perhaps as many as one million refugees, largely located in camps in the Northwest part of the country.

Tanzania is the largest (USD 65 million in 2002) and one of the earliest (1963) recipients of Danish development assistance. Since 1999, the local Danish Embassy was a pilot mission to test options for future Danida decentralisation and has an organisation that is fairly advanced in this respect. Within the Embassy's 32 staff are 13 Danish officials and 5 Tanzanian professionals. Embassy organisation is very compact and suggests fine-tuned efficiency, but it is also apparent that this organisational arrangement has created a major administrative burden for the relatively small number of Danida professional staff. It is expected that more extensive use of contract and local professional expertise will be needed to carry out the new responsibilities of Danida decentralisation, and attempts are already underway within the Embassy to lighten the administrative burden by further streamlining systems, consolidating portfolios, and looking for opportunities to share responsibilities among donors locally.

Denmark prides itself in the fact that its Country Strategy (currently for 2001-2005) is framed directly from Tanzanian owned strategy. Most important Tanzanian documents in this respect are the Vision 2025 statement (1999), the National Poverty Eradication Strategy (1998), the Poverty Reduction Strategy Paper (2000), a local approach to an annual Public Expenditure Review – PER (1997) – which has replaced the PER normally held by the World Bank -- and the Tanzania Assistance Strategy (2000), which defines a Tanzanian vision for donor behaviour in their country. The Denmark Country Strategy for Tanzania, which flows from these statements, channels 75% of Danish funding into well structured sector programmes in health, roads, business and agriculture. The remaining 25% of Danish aid is dedicated to an array of macroeconomic and institutional reforms, and projects promoting the cross-cutting objectives of democracy, human rights, gender, environment, among others. Most of these projects also find their grounding in Tanzanian poverty reduction strategy.

These specific Tanzanian expressions of national strategy and donor behaviour provide a very ambitious framework for overall donor partnership, including that of Denmark, who actively embraces the opportunity to coordinate in this manner. As early as 1996, Danida funded the well-known Helleiner Report which is described by Tanzanian officials as the starting point for a "new era in partnership" for Tanzania. Denmark also has participated in every major opportunity for partnership, be it at the national, sector or local levels. It participates actively in Tanzania's system of donor sector groups, sub groups and working groups and chairs three of them. In the longer term, it is Danish policy to seek the integration of Danida support into Tanzanian national systems. In addition to a disciplined respect for Tanzanian strategy and instruments as its preferred mode of operation, Denmark is seeking to progressively increase its level of targeted budget support (especially "basket funding") and ultimately, general budget support. In 2002, Denmark spent almost 25% of its aid on these budget support mechanisms. Despite its theoretical intent to shift to budget support modalities over time, Denmark is also one of the more demanding donors in terms of budget accountability, a fact which gives it the reputation for being somewhat more restrictive than some other leading donors.

(Cont'd)

Selected challenges at the level of Tanzania

- Although Tanzania was a pilot **decentralisation** mission for Danida, selected system gaps still will need to be addressed jointly by Copenhagen and the Embassy in the first few years following "complete" implementation of decentralisation on 1 September 2003. Gaps already identified by some include reshaping of the decentralised roles and organisation in Copenhagen headquarters, sorting out the new field-headquarters relationships (including a clear communications and feedback strategy), and the fine-tuning of Embassy organisation, once the final guidelines for decentralisation are known.
- The new challenges of **results-based management** are time-consuming and will require the Embassy to re-examine, with headquarters, ways in which the current multi-layered and weakly harmonised monitoring and evaluation systems (VPA, VPS, PDB, performance management system, etc.) could be transformed into one or two simpler and better integrated systems.
- The Embassy has dedicated and hard-working **professional staff**. Nevertheless, the staff is already significantly stretched and, currently, many do not have the time to make minimal travel to the field, nor to take advantage of some of the multiple opportunities for local partnership. In the last couple of years the Embassy has been active in promoting local co-ordination, in serving as a decentralisation pilot and in other policy processes. Danida believes these efforts will produce a reduction in the administrative burden in the years to come after decentralisation is firmly established and when the Embassy will be in a better position to plan and prioritise its own workload. Failing to find alternative solutions to this situation, the Embassy may wish to suggest a reduction in the number of its priorities and potentially the size of funds that it can appropriately manage.
- Last year the Danish government decided to provide assistance for gender and refugee affected areas. This funding was supplemental to the country financial frame and its intent was to emphasise and speed up action in the field in these two areas of special concern. While both gender and refugee affected areas are reasonable topics of development assistance for Tanzania, both programmes were initiated after only limited strategic dialogue with the Tanzanian partners and were justified essentially on the basis of Danish domestic considerations. The funds for gender had to be committed within a one year timeframe. Some local partners were critical of this process which called into question the integrity of Danida's **partnership** principles and drew partners' priority attention to activities with short-term funding and sustainability. More operationally, it caused an increased workload for the Embassy staff, particularly because the two initiatives were intended to show measurable results within a short timeframe. It would seem important for Danish political leadership to recognise more generically that such special funding actions from Copenhagen can be seen by its partners as contravening Partnership 2000 principles and that they carry the risk of reducing Country Strategy implementation efficiency.

Country strategy

Tanzania is close to a model for implementation of Partnership 2000 principles. Examples of Denmark's adherence to these principles included the highly participatory manner in which its Country Strategy¹⁸ was developed, the explicit linkage between the Country Strategy and Tanzanian poverty reduction strategy, Danida's focus on integrating its assistance with Tanzanian owned systems in a progressive but realistic manner, and its careful inclusion of Danish development themes in a manner that is sensitive to, and consistent with, Tanzanian priorities. This was undoubtedly greatly reinforced and simplified by the fact that the Tanzanian government itself produced a vision for donor

¹⁸. "Country Strategy for Tanzania 2001-2005 – Strategy for Danish development co-operation with Tanzania", Danida, Ministry of Foreign Affairs, January 2002.

Denmark

behaviour (“Tanzanian Assistance Strategy – TAS”) in 2000 that espoused many of the key principles of Partnership 2000. Danida fully understands the weak management capacity that is inherent in being one of the world’s poorest countries and is careful to work on national capacity building in parallel with all of its development activities in Tanzania. For example, it uses modest budget support only where closely accompanied by the capacity building measures that ensure adequate financial management of its funds. The 1999 Peer Review pointed out the very low level (DKK 3 million) of activity that can be approved by the Ambassador in the field. That level has not been modified to date, even though an increase in the level would appear to be substantially justified in the context of the improved management capacity of the Embassy flowing from decentralisation.

Country implementation

Danish development co-operation viewed by local partners

To leverage the impact of its funding, Denmark has targeted a relatively small number of fifteen programme countries for priority attention (see Box 5). The largest of its development missions is in Tanzania, a country visited by the Peer Review team. Because of its visibility there, partner perceptions of Danish development co-operation were readily accessible. In the case of Tanzania, Denmark was widely viewed as **conscientious and collaborative**. The fact that competent Danish professionals implemented their aid programme through extensive interaction locally was highly appreciated, a fact which should be further reinforced by the current effort to completely decentralise Danida operations by later this year.

Danida in Tanzania embraced a vision of total **integration** of Danish development co-operation into Tanzanian systems of administration and management, although they pragmatically admitted that the Tanzanian government was still far from having the capacity to manage satisfactorily the resources provided by Denmark. Denmark felt constrained in how quickly it could realistically turn its programme over to Tanzanian authorities because of a strong sense of **accountability** to the Danish taxpayer for use of its funds. This more conservative approach to accountability was in fact cited as a problem by several Tanzanian officials, who would have preferred more delegation of responsibility for management of Danish funds.

Danida normally does not support extensive use of long-term **technical assistance** in the beneficiary country, but, in the case of Tanzania had a total of 40 Danish and third country technical assistants in its current portfolio. Most of these experts were located in government offices (ministries, districts, etc.) in capacity building functions so as to ultimately work themselves out of a job. Many hold positions which require innovative behaviour, such as the Danish specialist in the President’s Office who is supported by health sector funds, but whose operational focus is to suggest ways to more effectively integrate Tanzanian programmes for local health care into the broader political and administrative context of national decentralisation to the local level.

Decentralisation seen from the field

Danida organisational decentralisation, as viewed from the field, is a major constructive step on the part of Denmark to address today’s realities of country ownership and decentralised development decision-making that is built around partnership strategies for the future. The transition to the new decentralised system is scheduled for completion in September 2003. However, viewed from Tanzania, one of the most decentralised Danida missions, it was apparent that effective decentralisation will be only partially complete as of this year. This perception is consistent with the experience of other decentralised DAC members who have learned that more specific organisational and management issues associated with decentralisation will become gradually obvious only over the

next few years of actual implementation. Danida should anticipate the need for periodic comprehensive review and evaluation of these decentralised systems over the next couple of years.

It would seem fitting that Tanzania continue to be a pilot country in terms of the monitoring and fine-tuning of the new decentralised systems. The staff within the Embassy made clear its advance understanding of multiple issues in relation to the new system and is motivated to contribute, as needed. The topics of possible review could include:

- i) The issues of Copenhagen to field communication – roles and responsibilities, needs in hardware or software, creative uses of Internet, forming of networks.
- ii) The issue of optimally integrating and simplifying measurement and reporting systems (see Box 15) between Copenhagen and the field.
- iii) The fine-tuning of Embassy and Copenhagen organisation most appropriate to the new decentralised system, including issues of staffing and technical support.

Sector approaches and basket funding

Danish policy emphasis on **sector approaches**, already noted in Chapter 3, is still percolating down to the realities of the field. In a country like Tanzania, with a proactive government and well co-ordinated approach to partnership, the sector perspective is pervasive across all donors, including Denmark. In that country, the PRSP framework is essentially built upon sector organisation (*e.g.* health, education, transport or agriculture), which is the organisational point of partner focus for the design, implementation and monitoring of their respective programmes for development. In the case of Tanzania, the Danida portfolio is largely built around four sectors (health, roads, agriculture, business), for which three of the four sectors already have well organised sector working forums. Within the sector focus Denmark (again like most donors) has sector components which support either “basket” funds (targeted sector budget support) or discrete activities, which may be implemented by government agencies, contractors or NGOs. The majority of Danida programmes is guided and disciplined in the context of these, very popular sector frameworks.

Currently, Danida uses almost one-quarter of its Tanzania funding to provide some form of **budget support**. This includes either the sector “basket” support noted above (10% of total Danish budget support, but growing), or macro-reform general budget support (90% of total Danish budget support, but proportionately declining). In theory, Danida in Tanzania fully supports the longer term objective of total integration of Danish funds into Tanzanian institutions and operations. Despite a clear Tanzanian Government preference for donor use of the budget support mechanism, Denmark has not gone as far as some other donors in the use of such approaches, because of Danish Government requirements to maintain proper accountability of the use of funds. Unlike some other donors, Danida in Tanzania maintains a full time expatriate controller, who is assisted by two local staff. This person, as part of her local development responsibilities, is a member of the Audit Sub-committee of the health basket fund. Her insight into the limitations of government accounting personnel for this fund is one of the reasons for which Denmark has deliberately opted to maintain a medium-level profile on this controversial topic, while it helps the government to build its capacity for financial management.

Future considerations

- Current efforts to **decentralise** Danida decision-making are viewed positively by partners in the field. Field staff encourages Copenhagen to continue to tailor the new decentralised systems in ways that are supportive of field operations. This includes full funding of the

Denmark

capacity needed to carry out the new systems, and the need for a close supportive alliance with the new Quality Assurance Unit.

- **Delegations of authority** to approve activity funding in the field are too low and should be reviewed in the broader context of decentralisation.

ANNEX I

THE 1999 DAC PEER REVIEW AND DENMARK'S ACHIEVEMENTS

Key issues	Concerns expressed in 1999	Progress Achieved
Country performance and budget	The relationships between country performance and the allocation of Danish assistance are mostly <i>ad hoc</i> . There is no stated policy to resolve it.	The new government has used the selection criteria of good governance and respect for human rights and democracy more rigorously and it recently left 3 programme countries for this reason.
Informal tying of aid	Although the Danish public puts a strong emphasis on aid being provided for humanitarian reasons, a system of "informal tying" aimed at a 50% return on bilateral ODA to procurement in Denmark is being used.	Denmark no longer pursues its "informal tying" policy.
NGO independence	Danish NGOs are funded heavily by the government, a situation that can compromise their independence and effectiveness.	In the 2002 funding to NGOs was reduced by 9%. Most NGOs now try to increase their level of private funding.
Staff limitation	Because of limited staff in the embassies, expertise necessary to implement and monitor programmes and projects in the field is not always sufficient. This is especially true in relation to strategically demanding Sector Programme Support. A possible solution is to work more in partnerships.	Staff are still limited in embassies but a move to decentralise in September 2003 should mean that more staff are transferred from headquarters to country offices. Danida is gradually shaping staff skills so as to support a sector approach.
Multilateral partnerships	Danish policy of "active multilateralism" is a largely unilateral approach by Denmark alone and will require greater partnership with other donors to effectively leverage change.	Danida is increasingly working in partnerships with other like-minded donors.
Decentralisation	(a) Embassies are given extensive operational responsibilities while their decision-making authority on project financing is limited to DKK 3 million. (b) The process of preparing the sector programmes can also lead to centralisation.	(a) Embassy decision-making authority is still limited to DKK 3 million. (b) All programming, including that of sectors, will be led by the embassies as of 2003.
Public opinion	Traditionally strong public support for Danish development co-operation may be starting to decrease.	The most recent opinion polls show continued strong public support for development co-operation.
Local ownership	To be more effective aid delivery mechanisms should be more integrated to programme countries' own policies and institutions.	Danida country strategies are increasingly closely aligned with those of the partner country.
Use of consultants	The use of consultants is extensive. Although the Danish consultants are professional they lack the long-term perspective and responsibility of permanent staff.	Denmark still makes active use of consultants but control on their use is increasingly delegated to embassies.

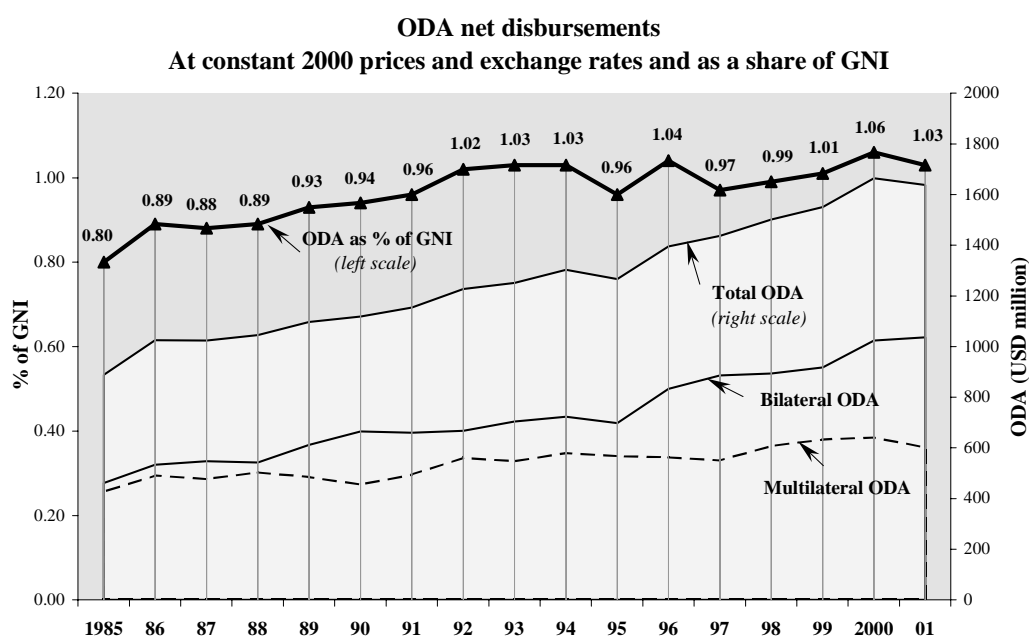
ANNEX II

OECD STANDARD SUITE OF TABLES

Table II-1. Total financial flows
 USD million at current prices and exchange rates

Denmark	<i>Net disbursements</i>						
	1985-86	1990-91	1997	1998	1999	2000	2001
Total official flows	539	1 245	1 937	2 139	1 697	1 918	1 840
Official development assistance	567	1 186	1 637	1 704	1 733	1 664	1 634
Bilateral	295	691	1 010	1 014	1 026	1 024	1 035
Multilateral	272	495	627	690	708	641	600
Official aid	n.a.	40	133	118	128	189	181
Bilateral		18	92	118	128	119	113
Multilateral		22	41	-	-	71	68
Other official flows	- 28	20	167	317	- 164	65	25
Bilateral	- 44	17	34	194	27	21	25
Multilateral	16	3	133	123	- 191	44	-
Grants by NGOs	14	30	32	35	39	45	19
Private flows at market terms	- 93	- 164	319	105	811	767	1 562
Bilateral: <i>of which</i>	- 93	- 164	319	105	811	767	1 562
Direct investment	44	43	337	105	745	767	998
Export credits	- 274	- 223	- 18	-	67	-	-
Multilateral	-	-	-	-	-	-	-
Total flows	460	1 112	2 288	2 278	2 548	2 729	3 422
<i>for reference:</i>							
ODA (at constant 2000 \$ million)	957	1 136	1 437	1 502	1 551	1 664	1 638
ODA (as a % of GNI)	0.85	0.95	0.97	0.99	1.01	1.06	1.03
Total flows (as a % of GNI) (a)	0.69	0.86	1.15	1.05	1.16	1.39	1.67

a. To countries eligible for ODA.



Source: OECD

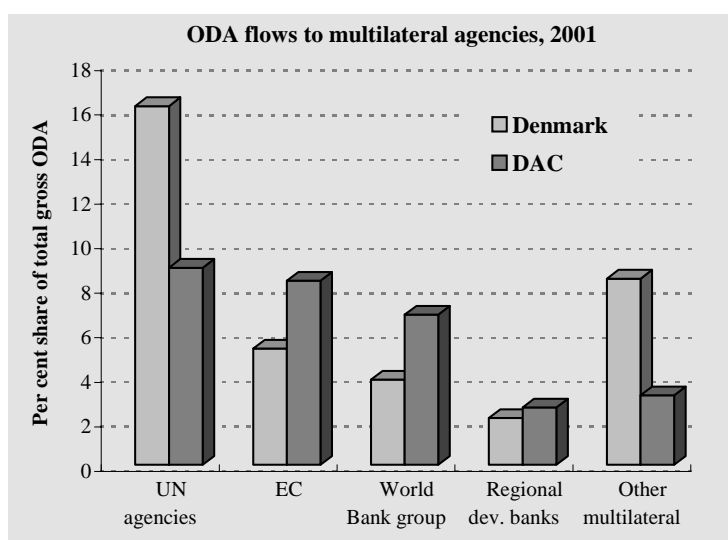
Denmark

Table II-2. ODA by main categories

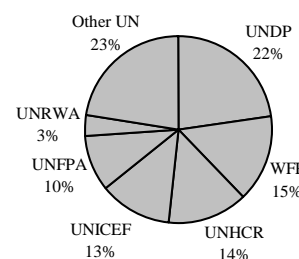
Denmark	Constant 2000 USD million					Per cent share of gross disbursements					Total DAC 2001%
	1997	1998	1999	2000	2001	1997	1998	1999	2000	2001	
	Gross Bilateral ODA	919	932	945	1 041	1 085	63	61	60	62	
<i>Grants</i>	<i>888</i>	<i>904</i>	<i>915</i>	<i>1 011</i>	<i>1 050</i>	<i>60</i>	<i>59</i>	<i>58</i>	<i>60</i>	<i>62</i>	<i>56</i>
Project and programme aid	562	577	642	633	658	38	37	41	38	39	13
Technical co-operation	100	100	74	128	139	7	6	5	8	8	23
Developmental food aid	-	-	-	-	-	-	-	-	-	-	2
Emergency and distress relief	83	81	78	124	114	6	5	5	7	7	5
Action relating to debt	28	48	8	4	11	2	3	1	0	1	4
Administrative costs	76	76	77	81	82	5	5	5	5	5	5
Other grants	38	22	36	40	46	3	1	2	2	3	4
<i>Non-grant bilateral ODA</i>	<i>31</i>	<i>27</i>	<i>30</i>	<i>30</i>	<i>35</i>	<i>2</i>	<i>2</i>	<i>2</i>	<i>2</i>	<i>2</i>	<i>14</i>
New development lending	-	-	-	-	-	-	-	-	-	-	13
Debt rescheduling	-	5	9	6	20	-	0	1	0	1	1
Acquisition of equity and other	31	23	21	24	15	2	1	1	1	1	0
Gross Multilateral ODA	550	608	633	641	601	37	39	40	38	36	30
UN agencies	258	266	252	251	272	18	17	16	15	16	9
EC	77	97	67	93	88	5	6	4	6	5	8
World Bank group	16	87	117	75	65	1	6	7	4	4	7
Regional development banks (a)	49	47	19	68	36	3	3	1	4	2	3
Other multilateral	151	111	177	153	141	10	7	11	9	8	3
Total gross ODA	1 469	1 540	1 578	1 682	1 686	100	100	100	100	100	100
Repayments and debt cancellation	- 33	- 38	- 28	- 18	- 49						
Total net ODA	1 437	1 502	1 551	1 664	1 638						
<i>For reference:</i>											
<i>ODA to and channelled through NGOs</i>	<i>121</i>	<i>144</i>	<i>124</i>	<i>106</i>	<i>155</i>						
<i>Associated financing (b)</i>	<i>27</i>	<i>10</i>	<i>24</i>	<i>30</i>	<i>30</i>						

a. Excluding EBRD.

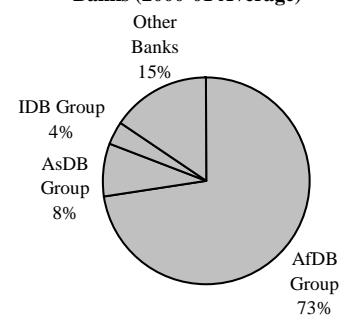
b. ODA grants and loans in associated financing packages.



Contributions to UN Agencies
(2000-01 Average)



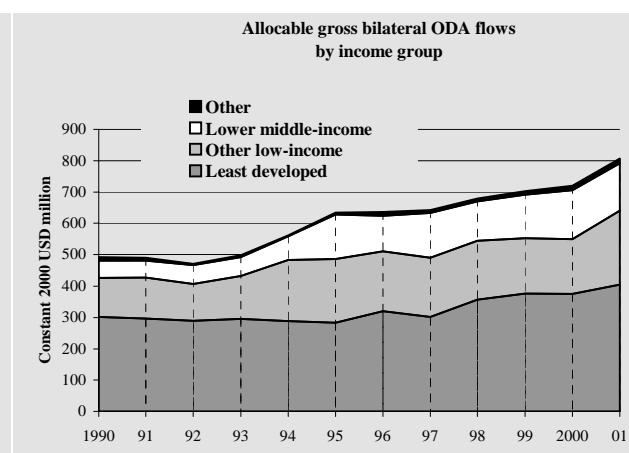
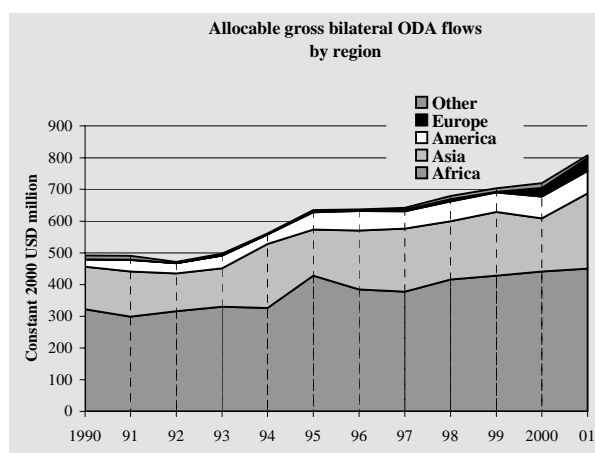
Contributions to Regional Development
Banks (2000-01 Average)



Source : OECD

Table II-3. Bilateral ODA allocable by regions and income group

Denmark	Constant 2000 USD million					Per cent share					Total DAC 2001%
	1997	1998	1999	2000	2001	1997	1998	1999	2000	2001	
	<i>Gross disbursements</i>										
Africa	378	416	428	441	450	59	61	61	61	56	32
Sub-Saharan Africa	350	387	392	399	424	55	57	56	55	53	25
North Africa	27	28	36	42	25	4	4	5	6	3	7
Asia	199	183	202	167	238	31	27	29	23	29	41
South and Central Asia	101	119	108	95	115	16	17	15	13	14	18
Far East	98	65	94	71	123	15	10	13	10	15	23
America	54	63	61	70	71	8	9	9	10	9	15
North and Central America	39	42	34	39	40	6	6	5	5	5	7
South America	16	22	27	31	31	2	3	4	4	4	8
Middle East	5	10	10	15	8	1	1	1	2	1	4
Oceania	0	-0	0	-	0	0	-0	0	-	0	2
Europe	5	7	2	28	40	1	1	0	4	5	6
Total bilateral allocable	642	679	703	720	807	100	100	100	100	100	100
Least developed	301	356	376	375	405	47	52	53	52	50	26
Other low-income	189	188	177	175	236	29	28	25	24	29	34
Lower middle-income	143	125	139	157	151	22	18	20	22	19	35
Upper middle-income	9	10	11	14	15	1	1	2	2	2	5
High-income	0	0	0	-	-	0	0	0	-	-	0
More advanced developing countries	-	0	-	-	-	-	0	-	-	-	-
<i>For reference:</i>											
<i>Total bilateral</i>	919	932	945	1 041	1 085	100	100	100	100	100	100
<i>of which: Unallocated</i>	277	252	242	321	278	30	27	26	31	26	23



Source: OECD

Denmark

Table II-4. Main recipients of bilateral ODA

Gross disbursements, two-year averages

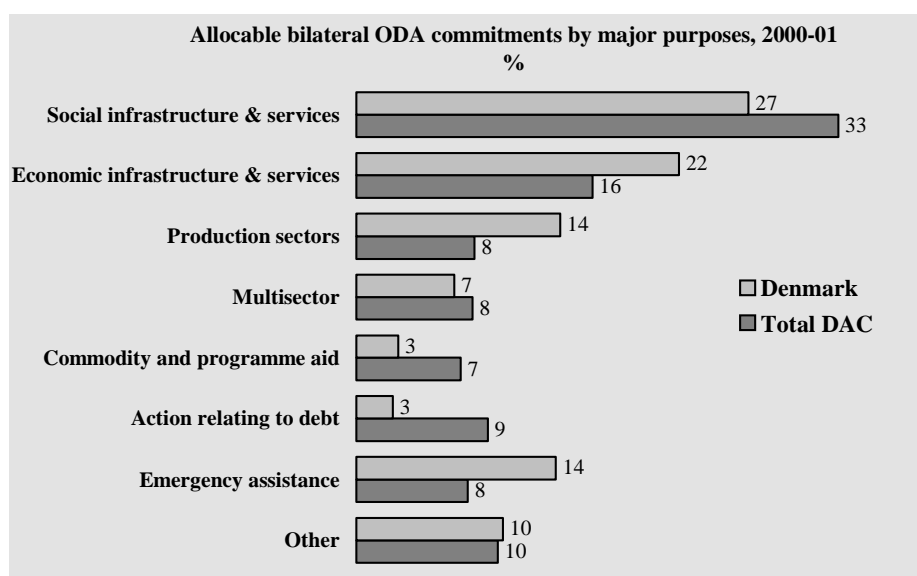
Denmark	1990-91			1995-96			2000-01				
	Current USD million	Constant 2000 USD mn.	Per cent share	Current USD million	Constant 2000 USD mn.	Per cent share	Current USD million	Constant 2000 USD mn.	Per cent share		
Tanzania	84	80	16	Tanzania	75	59	9	Tanzania	68	68	9
Bangladesh	56	53	11	Uganda	64	50	8	Uganda	60	60	8
India	40	38	8	Egypt	63	49	8	Viet Nam	51	51	7
Kenya	37	35	7	Zimbabwe	49	38	6	Mozambique	48	48	6
Uganda	29	28	6	Mozambique	46	36	6	Ghana	39	39	5
Top 5 recipients	245	235	48	Top 5 recipients	297	233	37	Top 5 recipients	265	265	35
Mozambique	29	27	6	Ghana	39	31	5	Bangladesh	38	38	5
Egypt	20	19	4	Nicaragua	39	31	5	Egypt	34	34	4
Zambia	20	19	4	India	39	30	5	Nicaragua	28	28	4
Nicaragua	19	18	4	Bangladesh	35	27	4	Burkina Faso	27	27	3
Zimbabwe	14	13	3	South Africa	26	21	3	Nepal	26	26	3
Top 10 recipients	346	332	68	Top 10 recipients	475	373	59	Top 10 recipients	416	417	55
Yemen	13	12	3	Zambia	26	20	3	India	25	25	3
Burkina Faso	11	10	2	Kenya	24	19	3	Sts Ex-Yugoslavia unsp.	25	25	3
Sudan	10	10	2	Viet Nam	24	19	3	Bolivia	24	24	3
China	10	10	2	Nepal	23	18	3	Malawi	23	23	3
Nepal	9	8	2	Thailand	20	16	3	Zambia	23	23	3
Top 15 recipients	399	382	78	Top 15 recipients	593	465	73	Top 15 recipients	536	536	70
Morocco	7	6	1	Burkina Faso	20	15	2	Benin	21	21	3
Lesotho	6	6	1	Bolivia	19	15	2	Zimbabwe	20	20	3
Sri Lanka	6	6	1	China	19	15	2	South Africa	16	16	2
Niger	6	6	1	Angola	15	12	2	Kenya	13	13	2
Malawi	5	5	1	Benin	14	11	2	Eritrea	12	12	2
Top 20 recipients	429	411	84	Top 20 recipients	680	533	84	Top 20 recipients	619	619	81
Total (73 recipients)	513	491	100	Total (91 recipients)	811	636	100	Total (90 recipients)	763	764	100
Unallocated	204	196		Unallocated	296	232		Unallocated	299	300	
Total bilateral gross	717	687		Total bilateral gross	1 107	868		Total bilateral gross	1 062	1 063	

Source : OECD

Table II-5. Bilateral ODA by major purposes
at current prices and exchange rates

Commitments, two-year averages

Denmark	1990-91		1995-96		2000-01		Total DAC per cent
	USD million	Per cent	USD million	Per cent	USD million	Per cent	
Social infrastructure & services	243	45	376	41	213	27	33
Education	35	6	40	4	47	6	9
of which: basic education	-	-	-	-	25	3	2
Health	55	10	160	17	26	3	4
of which: basic health	-	-	-	-	11	1	2
Population programmes	-	-	-	-	4	0	3
Water supply & sanitation	70	13	95	10	31	4	6
Government & civil society	2	0	54	6	85	11	6
Other social infrastructure & services	81	15	27	3	19	2	6
Economic infrastructure & services	75	14	164	18	175	22	16
Transport & storage	42	8	89	10	135	17	9
Communications	6	1	13	1	1	0	1
Energy	26	5	42	5	37	5	4
Banking & financial services	-	-	19	2	0	0	1
Business & other services	2	0	2	0	3	0	2
Production sectors	92	17	95	10	111	14	8
Agriculture, forestry & fishing	55	10	76	8	90	11	6
Industry, mining & construction	37	7	18	2	17	2	2
Trade & tourism	-	-	-	-	4	0	0
Other	-	-	-	-	-	-	-
Multisector	20	4	88	10	53	7	8
Commodity and programme aid	15	3	27	3	23	3	7
Action relating to debt	3	1	38	4	20	3	9
Emergency assistance	50	9	63	7	108	14	8
Administrative costs of donors	39	7	73	8	80	10	7
Core support to NGOs	3	1	-	-	0	0	3
Total bilateral allocable	541	100	923	100	782	100	100
<i>For reference:</i>							
Total bilateral	628	56	1 102	59	931	60	71
of which: Unallocated	87	8	178	10	149	10	4
Total multilateral	493	44	774	41	615	40	29
Total ODA	1 122	100	1 875	100	1 546	100	100



Source: OECD

Table II-6. Comparative aid performance

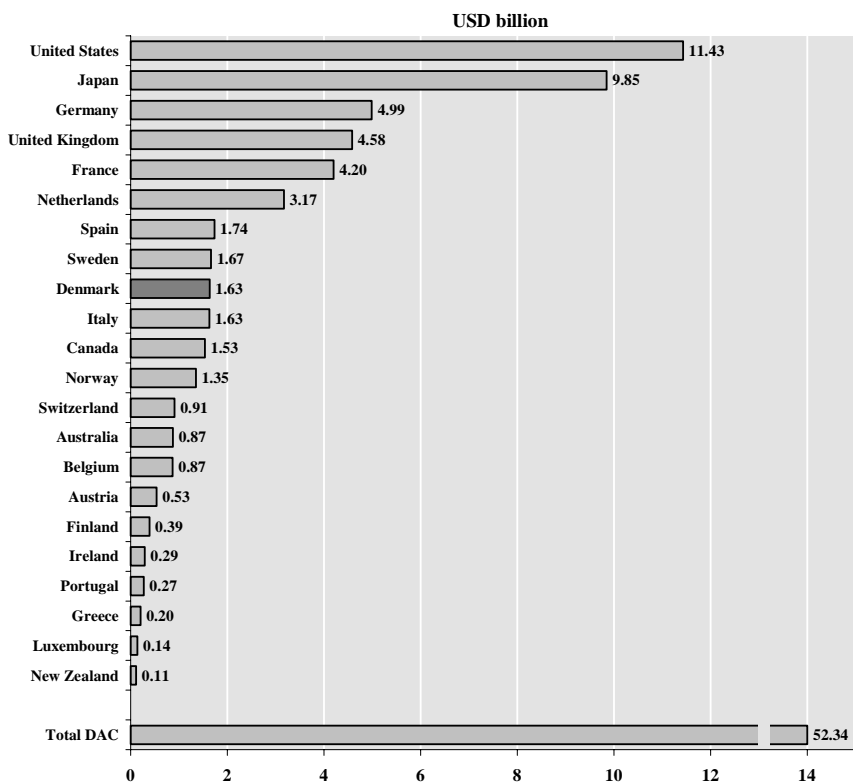
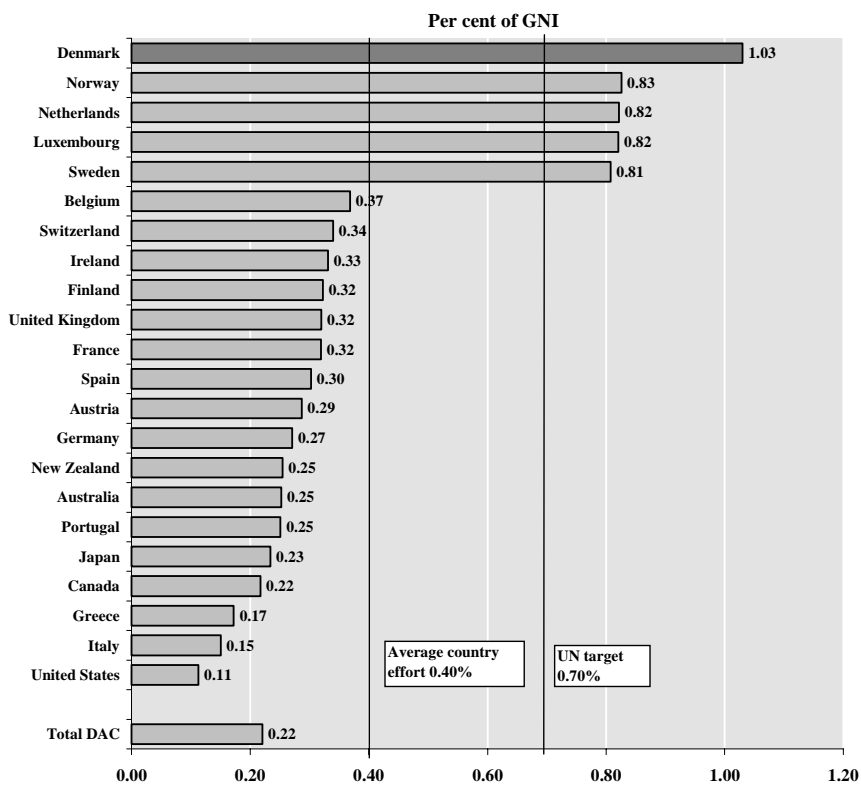
	Official development assistance			Grant element of ODA (commitments) 2001	Share of multilateral aid				ODA to LDCs Bilateral and through multilateral agencies 2001		Official aid	
	2001		95-96 to 00-01 Ave. annual % change in real terms		2001		2001		2001		2001	
	USD million	% of GNI		% (a)	% of ODA (b)	% of GNI (c)	% of ODA (b)	% of GNI (c)	% of ODA	% of GNI	USD million	% of GNI
Australia	873	0.25	0.6	100.0	24.3	0.06			21.4	0.05	5	0.00
Austria	533	0.29	0.2	90.8	35.9	18.4	0.10	0.05	18.8	0.05	212	0.11
Belgium	867	0.37	3.5	99.6	42.1	20.1	0.15	0.07	32.4	0.12	88	0.04
Canada	1 533	0.22	-2.6	100.0	21.7		0.05		15.1	0.03	152	0.02
Denmark	1 634	1.03	4.4	100.0	36.7	31.3	0.38	0.32	32.4	0.33	181	0.11
Finland	389	0.32	5.0	100.0	42.3	28.1	0.14	0.09	28.5	0.09	61	0.05
France	4 198	0.32	-6.6	95.5	38.2	13.3	0.12	0.04	24.7	0.08	1 334	0.10
Germany	4 990	0.27	-1.2	95.8	42.8	19.8	0.12	0.05	22.1	0.06	687	0.04
Greece	202	0.17	8.2	..	59.1	12.5	0.10	0.02	11.3	0.02	9	0.01
Ireland	287	0.33	11.9	100.0	35.7	14.3	0.12	0.05	50.0	0.17	0	0.00
Italy	1 627	0.15	-2.3	99.6	72.8	34.8	0.11	0.05	27.4	0.04	281	0.03
Japan	9 847	0.23	3.0	88.2	24.3		0.06		18.1	0.04	84	0.00
Luxembourg	141	0.82	18.1	100.0	24.8	13.5	0.20	0.11	31.9	0.26	9	0.05
Netherlands	3 172	0.82	5.0	100.0	29.9	23.8	0.25	0.20	30.8	0.25	214	0.06
New Zealand	112	0.25	5.6	100.0	24.1		0.06		26.0	0.07	0	0.00
Norway	1 346	0.83	1.7	100.0	30.1		0.25		33.5	0.28	32	0.02
Portugal	268	0.25	6.7	94.7	31.7	6.0	0.08	0.02	42.9	0.11	28	0.03
Spain	1 737	0.30	7.3	95.1	33.8	14.1	0.10	0.04	11.1	0.03	14	0.00
Sweden	1 666	0.81	4.4	99.8	27.7	20.9	0.22	0.17	27.7	0.22	119	0.06
Switzerland	908	0.34	3.0	100.0	29.0		0.10		28.5	0.10	63	0.02
United Kingdom	4 579	0.32	5.8	100.0	42.7	24.8	0.14	0.08	34.8	0.11	461	0.03
United States	11 429	0.11	3.2	99.7	27.5		0.03		14.8	0.02	1 542	0.02
Total DAC	52 336	0.22	1.8	96.4	33.1	23.6	0.07	0.05	22.5	0.05	5 574	0.02
Memo: Average country effort		0.40										

Notes:

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

Source : OECD

Figure II-1. Net ODA from DAC countries in 2001



Source: OECD

PRESS RELEASE OF THE DAC PEER REVIEW OF DENMARK

Denmark has been recognised for the generosity of its aid and its innovative development co-operation policy and management. Its operational focus on a small number of priority countries and sectors make its bilateral programmes among the most strategically framed in the DAC. Preliminary figures establish Denmark's net Official Development Assistance (ODA) at USD 1.63 billion in 2002. This represented 0.96% of its Gross National Income (GNI), the highest ODA/GNI ratio among the 23 members of the DAC (down from 1.03% in 2001) and significantly above the average country effort of 0.40%.

Past DAC reviews of Denmark's development co-operation underscored the leadership that it has provided within the international donor community over the last four decades and noted the sustained strong public and political support for its development co-operation. However, recent reforms include decisions to abandon the 1% of GNI target, withdraw from three programme countries, eliminate a number of advisory committees and merge the posts of Minister for Development Co-operation and Minister for Foreign Affairs. Some of these changes have been seen as introducing discontinuities in the Danish aid tradition with the risk of a lessening of the strong political priority that it had previously received. In the context of its continued reforms, the Government is currently discussing future policies and directions for Danish aid. If, as is anticipated, this process leads to a five-year strategy (2004-2008) and budget proposal later this year, the reform process may lay the foundation for a new political consensus on Danish aid volumes and practices centred around the Millennium Development Goals (MDGs).

The DAC Chairman, Mr. Jean-Claude Faure, summarised the Committee's main recommendations to Denmark:

- **Maintain the momentum of development co-operation leadership.** Denmark is encouraged to keep development issues high on the government's agenda. Similarly, Danida should further engage Danish civil society in a dialogue on development co-operation issues. The DAC welcomed Denmark's proactive approach to assessing and influencing the performance of the multilateral development banks and the United Nations system as a basis for decisions on funding these institutions. Denmark is encouraged to continue strengthening co-ordination with other key donors in this context and to continue to share with the DAC its development co-operation experience more generally, so as to promote common understanding of issues and best practice operational approaches.
- **Further untying of aid.** Denmark's announcement this year of its intent to untie its aid with respect to procurement in other European Union member states was welcomed as a major step towards further untying Danish ODA. Denmark should now fully comply with the OECD Recommendation on Untying of Aid to Least Developed Countries.
- **Hold the line on funding levels in the spirit of the 2002 Monterrey Consensus.** Denmark's ODA/GNI ratio could be in the 0.8% to 0.9% range over the next few years, considerably below previous levels. Denmark is encouraged to make every effort at least to maintain its current level of ODA volume.

Denmark

- **Maintain a strategic geographical and sector focus.** There has been political advocacy in recent years to use Danish ODA to promote special Danish initiatives. Supporting development efforts which are not priorities in the locally negotiated partnership agreements easily risks being non-sustainable, especially given the short-term one-off character of the funding provided. On another level, concerns about good governance and human rights led Denmark recently to terminate development co-operation activities in three countries with which it had entered into long-term partnership agreements (Eritrea, Malawi and Zimbabwe). Political conditions in these countries had deteriorated significantly, to the point where the Danish authorities concluded that their aid could no longer be effective. Other DAC members had reduced their aid to these countries for the same reasons while not terminating their co-operation altogether. In refining and clarifying its aid allocation policies, Denmark is encouraged to maintain its overall strategic vision of focusing on a selected number of priority countries and sectors through long-term sustainable partnerships based on country-led poverty reduction strategies. At the same time, Denmark is also encouraged to work on clarifying “exit” strategies vis-à-vis such countries and to continue its work in more problematic countries, interacting with the DAC work on Difficult Partnerships.
- **Broaden Danish capacity to support policy coherence for development.** Like other DAC members, Denmark experiences the difficulty of ensuring that all relevant policies are in line with its development objective of reducing global poverty. An asset for Denmark in this context is the grouping in the Ministry of Foreign Affairs of responsibility for international financial institutions, the United Nations system, humanitarian assistance and trade together with political relations. Denmark’s support for international policy coherence, including within the European Union, is helped by the intensive co-ordination of its policies in the European Union and by the positive attitudes and involvement of Danish industry and farmer associations. The DAC encourages the Ministry of Foreign Affairs/Danida to increase further interaction within government and with Parliament and civil society on these issues. Ministry of Foreign Affairs/Danida should have the capacity to play a stronger leadership role in analysing and promoting the development coherence of policy decisions.
- **Empower the field missions.** Danida operates with a lean professional staff and business-like procedures. Denmark is decentralising its development co-operation. This helps Danida, a leader on this front, to collaborate with developing country partners and other donors in the field, especially in the context of strategies that are led by partner countries, such as the PRSP. Redeployment of staff and other resources from Copenhagen to the field is crucial in this respect, especially in light of overall government budget compression. High-level oversight of the new system, based on regular quality assessments, will help ensure the necessary empowerment of field missions.
- **Find operational approaches to results-based management.** Danida, like many other donors, is developing a more performance-based aid management system. Danida is encouraged to maintain close collaboration with other DAC members who are currently pursuing similar endeavours, to support both its own efforts and those of other donor agencies.

During the review on 22 May 2003, the Danish delegation was led by Mr. Carsten Staur, State Secretary for the South Group of the Ministry of Foreign Affairs. The examining countries were Luxembourg and Portugal.

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. Full definitions of these and other related terms can be found in the "Glossary of Key Terms and Concepts" published in the DAC's annual Development Co-operation Report.

ASSOCIATED FINANCING: The combination of official development assistance, whether grants or loans, with any other funding 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 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 AID RECIPIENTS: The DAC uses a two-part List of Aid Recipients which is revised from time to time following decisions taken within the DAC. Part I of the List comprises developing countries (eligible to receive official development assistance). It 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 GNP less than USD 760 in 1998 (World Bank Atlas basis).

LMICs: Lower Middle-Income Countries, *i.e.* with GNP per capita (Atlas basis) between USD 761 and USD 3 030 in 1998. LDCs which are also LMICs are only shown as LDCs – not as LMICs.

UMICs: Upper Middle-Income Countries, *i.e.* with GNP per capita (Atlas basis) between USD 3 031 and USD 9 360 in 1998.

HICs: High-Income Countries, *i.e.* with GNP per capita (Atlas basis) more than USD 9 360 in 1998.

Part II of the List comprises "Countries in Transition"; assistance to these countries is counted separately as "official aid". These comprise (i) more advanced Central and Eastern European Countries and New Independent States of the former Soviet Union; and (ii) more advanced developing countries.

Denmark

DEBT REORGANISATION: Any action officially agreed between creditor and debtor that alters the terms previously established for repayment. This may include forgiveness, 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 Aid 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. They may be recorded **gross** (the total amount disbursed over a given accounting period) or **net** (less any repayments of loan principal or recoveries of grants received during the same period).

EXPORT CREDITS: Loans for the purpose of trade and which are not represented by a negotiable financial 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). The grant element is calculated against a fixed interest rate of 10%. 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 loans include deductions for repayments of principal (but not payment of interest) on earlier loans.

OFFICIAL AID (OA): Flows which meet the conditions of eligibility for inclusion in official development assistance, except that the recipients are on Part II of the DAC List of Aid Recipients.

OFFICIAL DEVELOPMENT ASSISTANCE (ODA): Grants or loans to countries and territories on Part I of the DAC List of Aid Recipients (developing countries) provided by the official sector with the promotion of economic development and welfare as the main objective and which are 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): Transactions by the official sector with countries on the DAC List of Aid Recipients which do not meet the conditions for eligibility as official development assistance or official aid.

TECHNICAL CO-OPERATION: Includes both (i) grants to nationals of aid recipient countries receiving education or training at home or abroad, and (ii) 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): Unless otherwise stated, data are expressed in current United States dollars. Data in national currencies are converted into dollars using annual average exchange rates. 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. These data show the value of aid in terms of the domestic purchasing power of a US dollar in the year specified.

THE DEVELOPMENT ASSISTANCE COMMITTEE



Development Co-operation Review Series

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