To: DAC Delegates and Observers

Denmark Mid-term Review, 5 April, Copenhagen

Dear Colleagues,

On Friday, 5th April, I visited Copenhagen to conduct the Denmark mid-term review, accompanied by Mags Gaynor of DCD. I would like to thank Ms. Trine Rask Thygesen, State-Secretary for Development Policy at the Danish Ministry of Foreign Affairs and her staff for an excellent programme of meetings and discussions. We met a range of senior staff from the Ministry of Foreign Affairs and the Danish Investment Fund IFU as well as representatives from civil society, all of whom shared their views on how Denmark is addressing the 2016 DAC peer review recommendations. I am pleased to report that Denmark has made progress against almost all of the Committee’s recommendations. In particular:

- The World 2030, Denmark’s strategy for development co-operation and humanitarian action, is anchored in the Sustainable Development Goals and includes criteria to prioritise activities. The policy is well known inside and outside the Ministry and serves as the basis for decision-making;

- Predictability has improved through a new budgeting mechanism which allows Denmark to meet its commitment to 0.7% of Gross National Income (GNI) allocated as Official Development Assistance as an average over several years. This reduces the impact of fluctuating levels of in-donor refugee costs on bilateral and multilateral budgets and alleviates pressure to meet an exact expenditure target;

- Denmark has refined its multilateral rationale and engagements, maintaining a significant share of multilateral aid as core funding while aiming for its earmarked funding to be “as good as core”;

- Denmark’s pioneering policy work in the humanitarian-development nexus is now matched with increased flexibility in country programmes and framework agreements with civil society partners to address the spectrum of needs from longer-term development to acute humanitarian assistance;

- Partnership grants managed by the Ministry, including with the private sector, are increasingly untied and demand-led and Denmark is aware of the need to keep development objectives central and to capture development results;

- Both public and blended funds managed by the Investment Fund for Developing Countries (IFU) are untied since 2017 and aligned to the Sustainable Development Goals. An evaluation of IFU is due to be released this month;

- While long approval times noted in the peer review have not significantly reduced, flexibility has increased and country programmes have been extended from three to five years;

- Denmark has changed its approach to risk management and quality assurance, investing more time and expertise in programme design, partner selection and partner capacity assessments.
The next peer review will be a timely opportunity to test the effectiveness and impact of these developments.

In addition to reviewing progress against specific recommendations, the mid-term review discussions covered a number of recent developments and ongoing challenges faced by Denmark.

Denmark’s new strategy for development co-operation and humanitarian action has strong support across parliament

I was encouraged to learn that The World 2030, launched in January 2017, has the support of eight out of nine political parties. Civil society partners were positive about the level of dialogue and engagement which they have with the Ministry of Foreign Affairs, including in the elaboration of the strategy.

Clearly a consensus document, the strategy is transparent in setting out Denmark’s national interests and linking these to global goods and development objectives. Within its four priority areas – (i) Security and development – peace, stability and protection, (ii) Migration and development, (iii) Inclusive, sustainable growth and development, and (iv) Freedom and development – democracy, human rights and gender equality – it has an increased focus on countries in an arc around Europe and on harnessing the potential of Danish society, particularly the business community. The human rights approach that characterised Danish development co-operation at the time of the 2016 peer review is less evident but the focus on civic space and sexual and reproductive health and rights remains.

I heard from the Ministry that parliamentarians are aware of the dangers of explicitly associating development co-operation with stemming irregular migration and movements of refugees, and support is not tied to actions taken by partner countries to curb migration. It is hoped that upcoming elections will confirm a high level of cross party support for The World 2030. Maintaining the same strategy over several years would allow time for partners to understand Denmark’s approach and for internal reforms and system changes to take root.

Engaging the public with relevant information remains critical in the current political environment

The 2016 peer review encouraged Denmark to re-build public support for development co-operation. Denmark has improved understanding of its different audiences for public communication, tailoring its messages and using social media. Having The World 2030 aligned to the Sustainable Development Goals, and a new website www.verdensmaal.org tracking Denmark’s progress on each goal, present new opportunities for Denmark to engage citizens. Building on recent work by the OECD DAC results community¹, Denmark can adapt the SDG framework to further strengthen its results management for accountability and communication and increasingly draw on the national results frameworks of its partner countries.

A proactive strategy to build sustained support for development co-operation based on the effectiveness and impact of Denmark’s investments remains more relevant than ever in the current political environment. Financial data is available in real time on Denmark’s OpenAid website, development co-operation evaluations are published and an annual results report from the Ministry is available online but Denmark’s development co-operation annual report has been discontinued and updates to Parliament are not publicly available. Further investment in knowledge management will assist in translating results information received from countries and partners into a compelling communication and engagement strategy.

Denmark has embraced the Grand Bargain and work in the humanitarian - development nexus

Stability and migration are key themes of The World 2030 and this has given renewed impetus to addressing fragility and creating opportunities for young people. I commended Denmark for its political leadership in this area and noted that Denmark already directs over a third of its bilateral budget to fragile countries and regions. Having embraced the 2016 Grand Bargain principles with enthusiasm, Denmark is adapting its funding to respond to the principles. The new civil society framework

partnerships, combining development and humanitarian funding, have a specific provision for innovation and allow partners more flexibility to work in fragile contexts.

We heard how embassies in Uganda and Ethiopia were able to respond in a timely manner to emerging needs without compromising a focus on longer-term development objectives. This flexibility and decentralised decision-making are essential for Denmark to continue its focus on fragility. In line with the OECD recommendation on the humanitarian-development-peace nexus, Denmark can now consider how to further incorporate its peacekeeping and peacebuilding work into its approach to fragility.

**Denmark continues to engage at country level, increasingly with new instruments**

As 70% of Denmark’s ODA is reported as bilateral aid, how it directs this support to country level shapes its overall development co-operation efforts. I was pleased to learn that Denmark's Country Programmable Aid has not fallen as sharply as anticipated at the time of the peer review, and less of the bilateral budget is disbursed as stand-alone projects. However, the share of the bilateral budget channelled through public sector institutions reduced significantly from 51% to 32% from 2016 to 2017 which limits opportunities for building national capacity and ownership. In addition, over half of bilateral ODA is unallocated by purpose, region or income group, a proportion which is not fully explained by support for global goods and regional initiatives. As implementation of the strategy progresses, it will be important for Denmark to monitor the extent to which its different funding channels are responding to country needs and building country capacity, in line with development effectiveness principles.

In response to the 2016 peer review, The World 2030 sets out categories of focus countries - global goods, poor and fragile countries, poor and stable countries, and transition and growth countries - and each category is assigned priority SDGs, aligned to Denmark’s focus areas. Denmark reduced its number of partner countries from 22 to 14 over a short period of two to three years during which Denmark honoured existing commitments. A number of DAC members have reflected on their country exit processes and this is an area in which I feel we can develop and share good practice.

A recent paper syntheses evaluations of Denmark’s engagements in Bolivia, Mozambique and Nepal where programmes and embassies have closed and the upgrading of Denmark’s partnership in Vietnam. It contains a number of useful reflections for Denmark’s work at country level, in particular that a much more dynamic approach to and use of monitoring, evaluation and research is required in order to achieve flexible and adaptive approaches to programming and implementation.

I was pleased to note the share of Denmark's ODA directed to least developed countries increased from 21% in 2015 to 27% in 2017. However, the longer-term trend is less positive. Ten years ago, Denmark disbursed USD 979 million to least developed countries while in 2017 this had dropped to USD 495 million. The declining share of ODA directed by DAC members to least developed countries is an ongoing concern which we highlighted when releasing the 2018 preliminary ODA figures in April. The World 2030 commits Denmark to direct the majority of its development co-operation budget to countries most in need. Measurable targets would be helpful in monitoring Denmark’s performance against this commitment.

**Denmark has been successful in attracting pension funds to invest in emerging markets**

Denmark is actively engaged in, and supportive of, OECD’s work on blended finance. The Investment Fund for Developing Countries (IFU) is managing a recently established SDG fund to increase investment in sustainable development in developing countries and emerging markets. The SDG fund has attracted 4.86 billion DKK (USD 720 million) in committed finance with 40/60 split between IFU and private investors, including significant interest from Danish pension funds. Total investment by the fund is expected to reach an impressive DKK 30 billion (USD 4.5 billion). In this case, finance is blended at fund level and at project level. Investments to date cover clean energy, clean transport, higher education and private healthcare, funded in conjunction with other development finance institutions, multilateral development banks and private investors. As the targeted net return is 10-12% per annum, investments selected by the SDG fund, which has first refusal on eligible IFU funding proposals, have not yet included least developed countries or fragile states. Denmark’s experience of attracting pension funds is of wider interest to DAC members active in the area of blended finance.
The Sustainable Development Goals are widely understood within Denmark

We heard repeatedly during the day that business and society in Denmark are familiar with the Sustainable Development Goals (SDGs) and starting to consider their role in achieving them. The Ministry of Foreign Affairs is aligning its development co-operation work to specific SDGs while respecting the interlinkages between the goals. A new inter-ministerial working group for the SDGs has been established, chaired by the Ministry of Finance with a wide remit, including policy coherence for development. These are positive developments. As the SDGs present a broad framework, however, it will be important for this inter-ministerial working group to ensure that domestic and EU policies are supportive of Denmark’s development co-operation objectives within the framework of The World 2030. In addition, while alignment to SDGs is well integrated into the Ministry, it will require sustained attention and effort to ensure that development objectives remain central to all development co-operation partnerships and that those left behind benefit most from Denmark’s assistance.

Conclusion

The 2016 peer review captured a number of challenges, many linked to increased in-donor refugee costs and negative public reactions to increased inward migration. The national context has now changed and while Denmark is still dealing with the legacy of these issues, there have been many positive developments and Denmark continues to make an important contribution to sustainable development and the DAC.

Finally, I wish to thank Trine Rask Thygesen, Stephan Schuemann, Maja Sverdrup, Thea Lund Christiansen and the many other staff who facilitated arrangements and participated in a most productive and enjoyable day of discussions in Copenhagen.

Yours sincerely,

Mayumi Endoh

cc:  Ms Susanna Moorehead, DAC Chair
     Mr Jorge Moreira da Silva, Director, Development Co-operation Directorate (DCD)
     Mr Raoul Malhotra, DCD
     Ms Mags Gaynor, DCD