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## Danish Development Aid – Case Study of an Effective Instrument Complementing Foreign Policy

**Abstract:** *The Danish development aid system (known as 'Danida') deserves closer attention. This is not only because it marks its 50th anniversary and Denmark currently holds the EU Presidency, but also due to its particular relevance to other donors, who may wish to use the Danish template, both for guidance and for inspiration. As explained in this article, Denmark's reputation and its international prestige is due, at least in large part, to its high position in the rankings of top world donors and soft powers. The highly successful merger of official development assistance (ODA) with other activities (including security, peace-keeping and also climate change), as well as its policies of trade and investment promotion demonstrate how useful development policy can be if productively blended with other components of foreign policy. In order to accomplish its aims, such an aid delivery system must be, as in the Danish case, smartly designed, cost effective, and equipped with a flexible internal organisation which allows for a rapid response to the new challenges and opportunities arising from globalisation, whilst being grounded on a solid legal and institutional foundation. Its management system should preferably be decentralised, remaining inclusive for the private sector and civil society, well-coordinated internally, and guided by a holistic approach to governing, with a leading role for the Ministry of Foreign Affairs, thus ensuring a strong focus on policy coherence for development (PCD). The aid delivery model should be transparent and non-vulnerable to political changes, based on a strong and reliable legitimacy with parliamentary backing and characterised by a balanced account of national interests. Denmark includes its national economic interests as well as those of its private businesses in its development aid programme in a manner consistent with the OECD requirements, in particular those relating to the untying of aid. In general terms, the example of Danida perfectly illustrates that development policy is also a realpolitik.*

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## Introduction

When participating in the current discussions and reflections on the expectations and results of the Danish Presidency of the European Union in the first half of 2012, it seems important to highlight Denmark's attainments in an area where it has achieved unquestioned success on the global scale and which, after careful and critical analysis, could prove to be an interesting and suitable platform for new donors, including Poland.

In the first place one must answer the question whether, in the area of development aid, the small European country of Denmark is, with all its instruments and expertise, a real model of success? Another question to be rightly posed is whether a well-structured and expertly managed aid system can, in addition to its main mission – reduction of poverty and contribution to the development of partner countries – be equally an effective tool to complement the traditional set of foreign policy instruments, which include not only the traditional areas of commerce, export, investment, etc. of the donor country and its economic actors, but such sensitive areas as security and migration as well? Could development aid constitute an additional tool to cope with the global challenges of the contemporary world?

The present article attempts to document and illustrate answers to the above questions. It also makes reference to modern day Poland, which is especially justified in the context of Poland's current efforts to construct and improve its aid system. In addition, the comparative analysis and focus on the best practices and experiences of Danish Development Aid (called 'Danida', the name derived from the implementing agency which was consequently incorporated to the Danish Foreign Ministry) can be a valuable and appropriate source of conceptual support for Poland's efforts.

An effective incentive for rapprochement and closer Polish-Danish co-operation in the field of development assistance is the co-operation, initiated in the second half of 2011, between the 'Trio Presidency' of Poland, Denmark and Cyprus (PL-DK-CY). This cooperation includes important issues such as legislative proposals concerning the Development Co-operation Instrument (DCI), the future of EU development policy, establishing a common position at the High Level Forum on Effectiveness of Development Aid in Busan (December 2011) and others.<sup>1</sup> It is no coincidence that the Danish role in the Trio programme covers such issues as the EU direct budget support (including the criteria for such support – *nota bene*, Danida has developed and successfully used special criteria for budget aid), donor co-ordination, policy coherence for

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<sup>1</sup> See: <http://register.consilium.europa.eu/pdf/en/11/st11/st11447.en11.pdf> along with its annex (last visited 22.02.2012).

development (including policies on climate change, trade, and migration), the European Voluntary Humanitarian Aid Corps, the thirteenth round of negotiations of the UN Conference on Trade and Development (UNCTAD) in Doha, etc. In these areas, Denmark is particularly active in international forums, while having its own reliable and high quality solutions and schemes.

## 1. Why is the Danish model so highly rated?

The deliberate choice of Denmark as an interesting and in many respects a suitable model for a case study is justified by its consistent top position in numerous international rankings. According to the March 2011 Peer Review on Denmark by the Development Assistance Committee of the Organisation for Economic Co-operation and Development (OECD DAC), Denmark is one of the highest rated systems in the world.<sup>2</sup> Also, the recent ranking of donors conducted by an independent research organisation – the Centre for Global Development's 2011 Commitment to Development Index – ranked the Danish system third in the world (after Sweden and Norway), based on a number of specific criteria (e.g. 'contents' of assistance and its implications for the development of trade, investment, technology transfer, improving the environment, positive effects of migration flows, security etc.).<sup>3</sup>

The question could be rightly posed at this point: how does it happen that a country like Denmark, which ranks among the smallest countries in Europe in terms of its size and population, has such a powerful global aid system, based on one of the highest allocations (ODA/GNI)? How has this system been maintained and continually expanded over the last few decades?

Many influential voices can be heard claiming that development aid has been used as an instrument of successive Danish governments to build an international reputation and image of Denmark as an important and influential global donor, conspicuous in the elite club of donors who spend more than the target set by the United Nations (at the level of 0.7 % of GNI).<sup>4</sup> The Danish purpose is also to gain the standing of a country able to perfectly combine flagship development aid targets, such as the fight against poverty and achievement of the Millennium Development Goals (MDGs), with the intelligent promotion of its political and economic interests.<sup>5</sup>

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<sup>2</sup> *OECD/DAC Peer Review 2011 Denmark*, OECD, Paris 2001.

<sup>3</sup> [http://www.cgdev.org/section/initiatives/\\_active/cdi/](http://www.cgdev.org/section/initiatives/_active/cdi/) (last visited 24.02.2012).

<sup>4</sup> Author's interview with Poul Nielson, former EU Commissioner for Development Aid and former Development Co-operation Minister in Denmark in the 1990s, 21.12.2011.

<sup>5</sup> *Danish Aid Policy: Theory and Empirical Evidence*, ed. F. Tarp, Ch.F. Bach, H. Gansen, S. Baunsgaard in: Discussion Papers, Copenhagen 1998, p.4.

This is demonstrated by quoting the selection criteria for identifying Danida's partner countries, strictly observed by the parliamentary committee: among the seven selection criteria there is one which indicates the possibility of supporting the Danish business sector and promotion of employment growth in Denmark, provided that the supply of Danish goods and services will be competitive in terms of technology, purpose and quality.<sup>6</sup>

## **2. Legal Basis and Institutional Framework**

The Danish model is based on robust foundations and political backing for fighting global poverty, as stated in the DAC/OECD Peer Review on Denmark.<sup>7</sup> It is evident that Danish development co-operation enjoys continued public support and understanding in the national parliament, civil society, and among the framers of public opinion.

The main legal and strategic framework is set forth by two important documents: the 1971 Act on International Development Co-operation (amended in 2002), and a continuously updated strategy, which gives a clear vision for the development-related activities of the country.

The Act has been a stabilizing factor for Danida and its programme over the last 40 years, ensuring a reliable and predictable framework for aid delivery. However, changing global challenges and priorities have brought about a growing recognition of the need to amend the existing Act. As consequence, a new legislative act has been recently proposed (January-February 2012) and is currently in the public consultation process. A change in the government coalition, bringing about a centre-left ruling majority in September 2011, was one of the catalysts of this decision.

The new draft law seems to even better reflect the role of development aid. In its very first paragraph the legislative proposal provides directly that, apart from its traditional objective of combating poverty and promoting human rights and democracy, sustainable development etc., Danish development co-operation likewise aims at promoting Danish interests in a more peaceful and stable world. Moreover, the first paragraph also states that development policy is a central and integral element of Danish foreign and security policy and of Denmark's global engagement. This is a very robust and clear acknowledgment of that fact that the above-described situation and role

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<sup>6</sup> Danish Ministry of Foreign Affairs, *Denmark's Participation in International Development Co-operation*, Copenhagen, June 2008, p. 186.

<sup>7</sup> *OECD/DAC Peer review...*, op.cit., p. 11.

has actually been implemented by Danish aid for many years. Thus the fundamental and strategic provisions relating to the framework of Danida remain untouched, while new provisions stipulate even more transparency, openness, inclusiveness of the process, and simplification of aid modalities.

Denmark's current development co-operation strategy, called 'Freedom from Poverty', commits Danish development policy to the over-riding goal of reducing poverty through sustainable development, and places greater emphasis on economic growth and employment. The policy prioritises five broad areas: growth and employment; freedom, democracy and human rights; gender equality; stability in place of fragility; and environment and climate. As admitted in the Peer Review, the strategy provides for general continuity in Denmark's choice of development priorities. It contains little explicit focus on traditional sectors such as education and water and sanitation, which Danida continues to support in a number of partner countries. The Guidelines for Programme Management clarify how the priority directions are put into effect.<sup>8</sup>

Some of the inspiration to amend the Act can be seen in the strategy defined, where the linkages between development and security and foreign policy goals are explicitly identified. Freedom from Poverty notes that 'development policy is also realpolitik'. Also, the Peer review emphasises that Denmark's continued commitment to MDGs and poverty reduction is critical to ensure that short-term foreign and security policy pressures, when they emerge, do not put at risk the overall long-term interest in effective development.

It is evident that Denmark has its own well-identified comparative advantages and recognised, highly prioritised core values such as freedom, democracy, human rights and gender equality, combined with zero tolerance of corruption. However, it may be truly said that Danish expertise in those areas is secondary to its strategic targets and is used to provide important and effective tools in the implementation of the tasks and priorities set out in the strategy, not the other way round. Denmark well recognises that a donor builds its own aid strategy around the tools which are available to it or potentially perceived as its strong advantages. In this particular case it is the overall strategy, translated into regional or national programmes based on the local ownership rule, that determines which specific instruments should be utilised.

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<sup>8</sup> Danish Ministry of Foreign Affairs, *Guidelines for Programme Management*, September 2011.

### 3. The institutional model – development aid closely linked to foreign policy

As mentioned, Denmark's development co-operation is driven by a parliament-approved development strategy, the annual Finance Act, which covers also aid expenditures over a four-year horizon, as well as the government's annual priority plan, which identifies political priorities for the year ahead and the different sub-strategies and guidelines prepared by the Ministry of Foreign Affairs (MFA). Most definitely the success of the Danish development co-operation model is based on the central role envisaged for the Ministry of Foreign Affairs in an overall framework consisting of solid legislation and the engagement of parliament, civil society, academia, and the private sector, supervised by independent system of evaluations and audits.

Institutionally, the administration of development assistance is unified under the responsibility of the MFA, led by the Minister for Development Co-operation (within the structure of the Foreign Ministry), with a role for the Minister of Foreign Affairs as well.

In its application of this model solution, incorporated into appropriately tailored legislation, Denmark has chosen an aid management model described in the DAC/OECD literature as an 'Integrated Ministry of Foreign Affairs Model', distinct from four other identified models used by other donors.<sup>9</sup> It seems clear that the choice of model adopted and used was a deliberate one, reflected in the fact that it arose as a consequence of incorporating the previously-separate aid-implementing agency in 1991, leaving its famous name – Danida – in place, even while labelling the aid activities as conducted by the MFA.<sup>10</sup> This was a strongly intentional decision, as was the choice of targets for the development strategy, correlating to the broadly understood principle that aid management systems should be designed around the objectives expected to be attained.<sup>11</sup>

The arguments for setting an institutional framework for development co-operation, with an inseparable link to foreign policy in the form of a fully integrated development co-operation with other aspects of foreign, security and trade relations, have been accepted as weightier than the claims that administering large amounts of money is not a traditional function of foreign ministries and that the

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<sup>9</sup> H. Chang, A.M. Fell, M. Laird, *A Comparison of Management Systems for Development Co-operation in OECD/DAC Members*, OECD Paris, DCD Vol. (99)6/June 1999, p.29–42.

<sup>10</sup> The MFA reorganisation of 1991 merged Danida, the previously separated aid implementing agency, into the framework of the Ministry of Foreign Affairs. At the same time, the MFA was re-organised along generally geographical lines, by creation of a South Group, which actually incorporated Danida, and the North Group – see more: *Idealer og Realiteter, Dansk Udviklingspolitik Historie 1945–2005 (Ideals and Realities, History of Danish Development Policy 1945–2005)*, ed. C. Due-Nielsen, O. Feldbaek, N. Petersen, Gyldendal 2008, p.390–466.

<sup>11</sup> *Ibidem*, p.29.

specificity of aid management necessitates a separation of these two functions (i.e. development aid and foreign policy tools). The integrated approach entails a *geographic* approach, which gives more flexibility in designing the set of instruments to be applied to a specific region or a country in a programmatic manner, ranging from the purely political, human rights-related, to trade and investment, to concerns about security, migration, climate change etc. In this menu development aid is often a strong and convincing element, at the same time offering to a donor country the size of Denmark the sense of being an important soft-power player when compared to other, much bigger global actors.

The precise role of development aid in the overall set of external instruments is defined in the Foreign Ministry's programming document, which states that development assistance must be seen as closely connected to trade policy and security policy efforts, all of which in the long run should lead to sustainable development.<sup>12</sup>

It is also true that when giving more weight to a geographical focus the prospects of better co-ordinated and more coherent national strategies are enhanced, even if, on the other hand, development policy might be more vulnerable to political pressures and possibly less professional in the design of projects etc. In fact, the Danish model tends to combine the geographical approach with the functional one, while at the same time taking advantage of the high level of specialisation of aid delivery attained by respective ministerial units responsible for the 'technical' side of programmes and the discharge of aid allocations.

The integrated system applied in Denmark seems to be also in line with DAC/OECD guidelines set forth in 'Effective Aid Management', which contain a set of twelve recommendations/lessons from DAC peer reviews. In particular one should note 'Lesson' six: Rationalise bilateral aid structures to facilitate coherent action at the country level (dealing with institutional dispersion, which indicates that current developmental thinking suggests that better integrated national development co-operation systems could foster complementary relationships and synergy by integrating, or at least better co-ordinating, fragmented systems under one strategic umbrella). This recommendation states furthermore that the DAC has favoured approaches which make it easier to bring together all forms of assistance at the country level, rather than having two separate approaches for loans, grants and technical co-operation and/or for programmes of a 'vertical' nature.<sup>13</sup>

In Denmark the Development Co-operation Minister, who is nominally a full cabinet minister, is placed within the Ministry of Foreign Affairs. The

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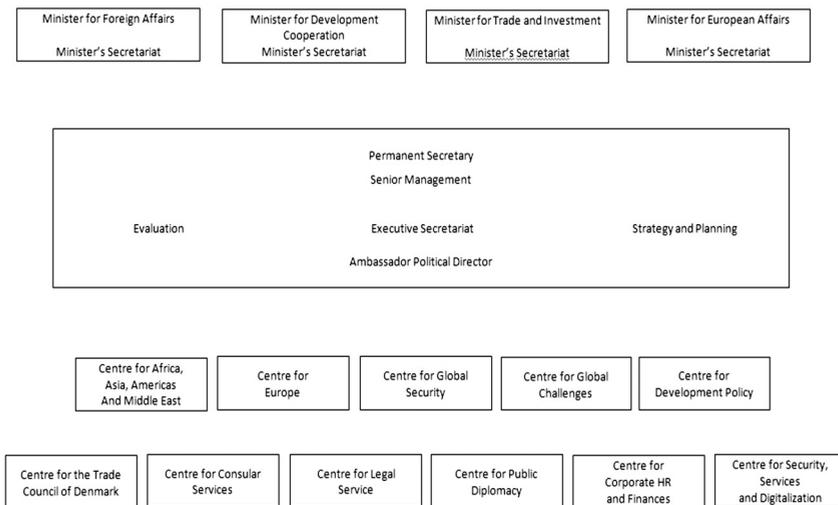
<sup>12</sup> Danish Ministry of Foreign Affairs, *Diplomacy in a Boundless World*, Copenhagen 2006, p. 11.

<sup>13</sup> OECD Paris, 2008, p. 11–12.

Act on Development Co-operation also lists other cooperating ministries, such as the Ministry of Culture and Ministry of Education, which are responsible for cultural and educational programmes under separate agreements with the countries-recipients of aid, as well as the Ministry of Economy, the Danish Bankers Association, the Confederation of Trade Unions, the Confederation of Danish Industry, and others.

Under the Act on Development Co-operation the Minister for Development operates through a department within the Ministry of Foreign Affairs.<sup>14</sup> At present, following the reorganisation of 2009 of the Ministry of Foreign Affairs, the function is performed by the Centre for Development Policy, which includes: the Department for Humanitarian Aid, Policy and Civil Society Development, responsible for development policy issues and aid effectiveness, DAC, as well as civil society and humanitarian assistance; the Department for the Quality of Development Assistance (Quality Assurance) responsible for quality development, aid management guidelines, and the framework for result-based aid and performance management; the Department of Business Assistance and Contracts and Department for Technical Support and Advisory, which provides technical advice. These constitute the core of the strict development of aid-related activities within the MFA, ranging from the programming of aid to technical operations and money disbursements.

**Table 1. Organisational scheme of the Danish Ministry of Foreign Affairs**



Source: Danish MFA and author's compilation.

<sup>14</sup> *Denmark's Participation in International Development Co-operation*, op.cit., p. 185.

The re-organisation of the MFA in 2009 further integrated foreign, trade, and development policy to create an organisational framework that would be flexible enough to address the new challenges and opportunities created by globalisation. The Ministry's re-organisation involved disbanding the former North and South pillars to create 11 'centres', overseen by the top management. The objective of the 'centre structure' was to make the division of tasks more relevant and to anchor global issues across the centres. Apart from the Centre for Development Policy, in charge of co-ordination of development policy and humanitarian action, seven other centres are also involved in development co-operation activities (Centre for Global Security; Centre for Global Challenges; Centre for Africa, Asia, Americas and the Middle East; Centre for the Trade Council; Centre for Corporate Services; Centre for Legal Service; and the Centre for Public Diplomacy). The role of the Centre for Global Challenges focuses on new priority global issues which intersect foreign affairs and development policy – for example climate change, the MDGs and the financial crisis – and is responsible for coordination with the United Nations, World Bank, IMF and OECD. The Centre for Africa, Asia, Americas and the Middle East is responsible for the general handling of bilateral relations, while the Centre for Legal Service deals with democracy and human rights. The remaining centres handle Afghanistan and the fragile states, trade, human resource management, and public diplomacy.<sup>15</sup>

A new reform as of late 2011 resulted in the inclusion of previously separate aid activities *vis-à-vis* the countries of Eastern Europe, Caucasus and Central Asia among the mainstream of aid operations, which used to report directly to the Foreign Minister.

It should be stressed that all other relevant MFA departments, including the territorial departments, are actively engaged in development activities or – as seen from the reverse side – include development components in their geographical or thematical programmes (e.g. Afghanistan, the Middle East etc.). Moreover, this system extensively uses external consultants based in the headquarters and, first and foremost, the Danish diplomatic missions abroad. According to the author's own estimations, there are approximately 1000 Danish civil servants, including local staff at the embassies abroad, whose primary involvement is in the programming, monitoring and implementation of Danish development programmes. Bearing in mind that the overall annual ODA disbursement totals around 2.8 – 3 billion USD, it can be calculated that the ODA management volume equals around 3 million USD per civil servant. This means that the staffing of aid programmes is not oversized and the well-designed organisation is able to manage its supervision over a large amount of

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<sup>15</sup> *OECD/DAC Peer Review 2011*, op.cit., p. 49.

funds, with a division of labour between the headquarters and missions in the field, with a very small percentage of misused money given the results achieved. In comparison, the Canadian International Development Agency (CIDA), having approximately 2,000 aid workers in place, is in charge of 3–5 billion USD ODA allocations over last five years, which yields a relative ratio at the level of 1.5–2.5 million USD per aid worker.

A separate role is envisaged for the evaluation unit, which is situated independently from any other desks and departments, and moreover, reports directly to the ministerial level. The Evaluation Department at the MFA, currently employing six civil servants and a range of external consultants, carries on about 20 evaluation projects per year, with a total budget of between 12–14 million USD. Its reports are presented to the Foreign Affairs Committee at the Parliament. This allocation of responsibilities ensures true independence in the evaluation results, while allowing to feed the subsequent aid programmes through a newly improved system which transposes the ‘lessons learnt’ and findings of the evaluations into new operations or the next stages of continuing programmes.

Over past years Danida has elaborated a highly efficient inter-ministerial co-ordination mechanism, which is known as the Programme Committee. The Programme Committee has been established to provide quality assurance and guidance on best practices to bilateral and multilateral development co-operation, as well as to ensure coherence between specific programmes and overall policy issues. The Programme Committee provides advice on the implementation of policy priorities and on linkage between bilateral and multilateral development co-operation, provides guidance on quality assurance checks of rules and procedures, and endorses the formulation and appraisal phase of programming. Thus, the Programme Committee is a forum for decision-making, strategic discussions, learning and knowledge-sharing, including among the various representatives, who participate as peer reviewers when relevant. Issues discussed in the Programme Committee include: 1) country policy papers; 2) new bilateral programmes (and new phases of programmes) with a commitment above DDK 35 million and subject to appraisal, including the climate fund; 3) multilateral organisation strategies and action plans; 4) management responses to evaluations and follow-up to evaluations. One of the key tasks of the Committee is to ensure that Danish development co-operation priorities and policy considerations are well reflected in the implementation of Danish development policy. The Programme Committee is chaired by the Under-Secretary for Development Policy and its permanent members are: Humanitarian Action, Development Policy and Civil Society Department, Technical Advisory Services, Evaluation Department, Business and Contracts Department, Global Co-operation and Economy Department, and Quality

Assurance Department. Also regional departments, multilateral departments and embassies (making use of technical advances and developments such as, e.g. video-conferencing) can participate when relevant and necessary, depending on the agenda in question. The departments and embassies are represented by their Heads/Deputy Heads. To the extent possible concept notes can be 'peer reviewed' by other embassies with experience in similar programmes. The Committee serves as a unique platform to confront and possibly match different approaches, for example, those of country or regional desks with those of multilateral institution (i.e. EU or UN-systems), and to find a common denominator in line with the overall objectives and priorities of Danish external policy. For example, concept notes on Organisational Strategies (relevant to international organisations) include an assessment of the strategic considerations as regards the relevance and justification of future Danish support to the organisation, including a description of how/why it is a suitable vehicle for advancing Danish policy priorities as outlined in the Strategy for Denmark's Development Co-operation, and how synergy is envisaged with bilateral programme goals. As for the EU development co-operation, the Committee discusses significant EU development policy initiatives in order to identify the various implications for Danish development co-operation and possible areas where Denmark can play a role in influencing and shaping policy initiatives, as well as identifying areas where special efforts could be made to advance Danish interests in line with previously-approved priorities. Furthermore, the Committee plays a role in the follow-up process of evaluation of Danida programmes, by making comments to the main findings and recommendations, and deciding on follow-up actions, including activities facilitating in-house learning.<sup>16</sup> In fact, this body makes the fullest possible use of the assets of the Foreign Ministry and plays a role which cannot be otherwise played, for practical reasons, by the Development Policy Department itself.

A distinctive feature of the Danish aid system is the high degree of utilisation of the network of own diplomatic and consular offices in the countries covered. In 2003, a reform of the system consisted in the decentralisation of aid management from the head office to country representations. This step has been identified by OECD/DAC as a significant instrument for aid effectiveness and appears to demonstrate the principles of the Paris Declaration.<sup>17</sup> The

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<sup>16</sup> Ministry of Foreign Affairs of Denmark, *Guidelines, Programme Committee for Bilateral and Multilateral Development Co-operation*, July 2011, p. 3–9.

<sup>17</sup> 'Denmark's development co-operation is decentralised and all Danish embassies and missions in partner countries have developed harmonization and alignment action plans based on the Paris Declaration and the Accra Agenda for Action which are adapted to the specificities of the partner country', after: *The Evaluation of the Paris Declaration, Phase 2, Final Report*, ed. by B. Wood, Copenhagen, May 2011, p. 179.

decentralisation transferred responsibility to missions for the formulation of programme objectives and national programme management. At the same time, it strengthened the structure of the MFA headquarters responsible for the supervision and quality control of the assistance offered.<sup>18</sup> An external evaluation on the decentralisation process revealed that the decentralisation of Danish aid management brought about positive results overall, including more flexibility, and increased alignment and harmonisation with the principles of the Paris Declaration, placing Danida among the most decentralised implementing agencies, particularly with respect to its timeliness and responsiveness during programme implementation. In particular the study concluded that this resulted in an overall upgrading of the quality of Danish development aid.<sup>19</sup> The decentralisation process moved the responsibility to the embassies, not only in the area of programme implementation but also to a large extent in programming and programme appraisal. Key programming documents – country concept papers, country strategies, country programme documents, inception reports on programme implementation, and programme reviews are drafted by embassies and only afterwards finalised and approved by headquarters.<sup>20</sup> Also, the embassies have a local grant authority of up to DKK 5 million, which they can allocate without approval from headquarters. The above-described arrangements had been thoroughly prepared over a time span of four-and-a-half years, including a long decision process within the senior management of MFA, where objections to the project were initially strong.<sup>21</sup> In effect, the successfully-introduced decentralisation resulted in strengthening the links and multi-aspect collaboration between headquarters and Danish embassies, while demonstrating the large potential embodied in the MFA-based integrated aid management system. In particular, this involves: Regional Departments, in their new role of analyzing the political context of draft programming documents submitted by embassies and finalizing Country Strategies; Department of Development Policy, in its role of elaborating development policies and framings; Technical Advisory Service, in providing *ad hoc* technical support; Quality Assurance Department, in performance reviews, programme databases etc.; Centre of Competence, in staff training; Business and Contract Department, in providing consultancy and technical advice; Personnel Department, in recruitment and staff postings; and Evaluation Department, in evaluations of performance.<sup>22</sup> As documented in a special study devoted to

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<sup>18</sup> *OECD/DAC Peer Review*, op.cit., p. 50.

<sup>19</sup> Ministry of Foreign Affairs of Denmark, *Evaluation of the Decentralisation of Danish Aid Management*, Copenhagen, June 2009, p. 6 and 73.

<sup>20</sup> *Ibidem*, p. 33.

<sup>21</sup> *Ibidem*, p. 21–26.

<sup>22</sup> *Ibidem*, p. 47.

the Danish system of decentralised aid delivery, it has been demonstrated that the relatively strong relationship between head office and embassies has been maintained and, contrary to the views expressed in some of the literature, the decentralisation of aid management has not lead to the fragmentation of the embassies from the head office.<sup>23</sup> Furthermore, it has been also been shown that the decentralisation of aid management can actually permit the donor to be more adaptive and responsive to locally expressed needs and to co-ordinate more readily with other partners, provided that it is based on high-quality, lean support systems and addresses those particular challenges which potentially could limit the positive effects of that process, including sufficient staffing of embassies combined with proper training schemes and the problem of a possible over-politicisation of aid.<sup>24</sup>

Under the Law of 1971, the Danida Board for International Development Assistance is the key institution in programme approval, monitoring and accountability. The Board reviews and makes recommendations to the Minister for endorsement of appropriations greater than DKK 10 million, and discusses the annual country assessments by embassies regarding programme performance. The minister usually follows the board's recommendations when approving programmes. In its present shape, the Board consists of 9 members representing, in equal parts, civil society (3), the private sector, employers, trade unions (3) and research and academia (3). The members are selected for a three-year term, although according to somewhat unclear criteria. In an exclusive assessment by a Board member, it was asserted that this institution has played a vital role in ensuring the close engagement of various sectors of Danish society, and its work overall should be assessed quite positively. Moreover, the Board also gives a sound legitimacy to the Development Minister before the Parliament and can be viewed as having an additional and quite useful role as 'sparring partner' for the minister before his/her upcoming sessions vis-à-vis parliamentary committees to present official documents before the Parliament.<sup>25</sup>

The presently-debated new proposal on the law for development co-operation, which is supposed to amend the Law of 1971, intends to replace the Board by a Forum for Development Policy in an attempt to bring more transparency and social involvement in development aid. The proposed Forum would consist of up to fifteen members who will be appointed to serve a term of up to six years. The Forum for Development Policy is supposed to create

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<sup>23</sup> L. Engberg-Pedersen, *Unpacking Danish Decentralised Aid Management*, draft DIIS paper (unpublished), 10.10.2011, p. 22.

<sup>24</sup> *Unpacking Danish...* op. cit., p. 19–21.

<sup>25</sup> Author's interview with Prof. Henrik Secher Marcussen, Roskilde University, Member of Danida Board, 21.12.2011.

the framework for a constant strategic dialogue on the completion of the tasks under the responsibility of the Minister of Development Co-operation. The idea is that the previous tasks of the Board, concerning advising the minister with regard to programmes and projects of a certain size, based on professional evaluations, will be transferred to units within the Ministry of Foreign Affairs, which has so far had the same tasks regarding programmes and projects on a smaller scale.<sup>26</sup> These new proposals aim at strengthening the general role of the Danish aid system, and is aimed at maintaining the wide-ranging participatory character of the aid delivery model.

The other important stakeholders of the Danish aid system are: the private sector (as described in more detail below), and the Parliament, the latter playing a key role in the domestic accountability mechanism that is considered to be strong in Denmark. In addition to the requirement that Parliament approve the overall development strategy and the annual Finance Act, a number of parliamentary committees address development at the working level. The Foreign Affairs Committee and the Finance Committee monitor and assess development activities through regular visits to partner countries and international organisations. The Finance Committee also approves grants which are not described in the finance bill and are above a certain threshold (DKK 35 million), and ensures that public funds are administered correctly. It is also a common practice that committee members visit partner countries every two years. The obvious benefits of parliamentary engagement are increased public awareness and the support that it creates for development co-operation.<sup>27</sup>

#### **4. From a separate aid agency to an MFA-based integrated model – grounds and merits**

It is remarkable how Danida has evolved from a model initially based on a separate aid agency to the present scheme, which depends on the Ministry of Foreign Affairs' large internal and external (embassies) assets and thus constitutes a well-shaped, very effective institutional arrangement, which has been highly praised internationally.

The evolution of Danish aid goes back in history to 1962, when Denmark established its first overall bilateral development assistance programme for the developing countries under the Ministry of Foreign Affairs (in the 1950s, the Danish development assistance efforts were channelled almost exclusively through the

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<sup>26</sup> <https://www.borger.dk/Lovgivning/Hoeringsportalen/Sider/Fakta.aspx?hpid=2146003187> (last visited 22.02.2012).

<sup>27</sup> *OECD/DAC Peer Review*, op.cit., p. 24.

UN system). In its early years Danish aid was characterised by testing various approaches and building up a development assistance administration.<sup>28</sup>

From the beginning of the 1970s there was a growing emphasis on poverty as the basis for the allocation of Danish development assistance. Until the early 1990s Danish aid was predominantly project-based.

In 1991 an administrative reorganisation took place, and Danida went from being an independent unit to becoming part of a single-string service in the Ministry of Foreign Affairs. This reorganisation also meant that development assistance became a high-profile element of Danish foreign policy. Since that time Danish development assistance has significantly expanded, with large-scale interventions in conflict areas such as the Balkans, the Middle East, Afghanistan, and Iraq. As such, it is also being utilised as an active instrument of foreign policy in new areas, for example, conflict resolution, the struggle against terrorism, and the promotion of good governance.

The structural reorganisation of Danida, which resulted in placing it into the overall structure of the Foreign Ministry coincided, not accidentally, with two extremely important conclusions which eventually established a new orientation to Danish development aid:

- 1) A need to get away from the project-based approach and proceed to a programme sector-wide approach, based on the principle of local ownership (understanding that sustainable development cannot be created by outsiders alone); and
- 2) A need to better focus the aid policy and link it more closely to the foreign policy line.

As a result the former agency, which was committed by its nature to the project approach, was replaced with a strong and well integrated unit within the Foreign Ministry, adding many new tools and modalities in terms of policy guidance, programming, and pooling resources, including embassy staff etc.

The first motivation was based on the reckoning that that project-based aid was not effective and that aid programmes should be linked to certain sectors and should be run by local authorities. Local ownership and capacity-building should be the focal point of the programmes. Development aid became concerned not only with the receiving state but with its society as a whole, including civic society and the private sector. In the developing countries this meant a growing demand for good governance and the involvement of governments and institutions in aid programmes.<sup>29</sup> The corollary is that the donor countries

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<sup>28</sup> The name Danida appeared in 1963 as a contraction of Danish International Development Agency and, subsequently, Danish International Development Assistance. Today Danida is no longer a contraction but has been designated as the term for Denmark's development co-operation.

<sup>29</sup> See more in: '*Idealer og realiteter..*', op.cit., p.393–403.

began to get involved and therefore wanted to influence local governments, sometimes forcing reforms concerning administration and government on the receiving countries. This was part of a broader trend in the international donor community, where the project aid component of aid budgets declined severely and other aid instruments expanded, notably policy-conditioned programme aid, support for the private sector etc.<sup>30</sup>

Secondly, in 1989 it was decided that Danish bilateral aid be concentrated on twenty so-called 'co-operation countries', as it was realised that more focus was needed if Denmark wanted to have an impact. This thinking was also an important element of the first major development strategy, called *A World in Development*, adopted in 1994.<sup>31</sup> Poverty reduction was established as the overall objective, complemented with three cross-cutting issues relating to gender, the environment, and democratisation. Moreover, the strategy announced a change from project aid to sector-wide approaches, and engaged Denmark in negotiations with the co-operation countries to determine how Danish aid could contribute to the implementation of national legislation and policies.<sup>32</sup> This point was reinforced in a revised strategy six years later, *Partnership 2000*.<sup>33</sup> Further on, a strengthening and streamlining of aid management prepared the ground for the decentralisation process described above; that process however could not be effectively launched and executed without the prior integration of Danida into the Foreign Ministry structure.

The flexibility achieved by the improved aid delivery system resulting from the new status of Danida made it fairly easy to modify the priorities of aid and shift, just a decade later, towards a new agenda of fighting terror, with a stronger focus on security issues and religious extremism, not least because of the terrorist attack on the World Trade Center on 11 September 2001. It also led to the link, which had gone unnoticed, between military and financial aid. As a result of this trend, in June 2003 a new governmental strategy on Danish aid was introduced for 2004–2008 – 'A World of Difference' – where the focal point was still to reduce poverty, but where two main themes were distinctly present:

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<sup>30</sup> See more in: P. Mosley, M.J. Eeckhout, *From project aid to programme assistance in: Foreign Aid and Development. Lessons learnt and directions for the future*, ed. F. Tarp, London and New York 2000, op.cit., p. 131–153.

<sup>31</sup> Danish Ministry of Foreign Affairs, *En verden i udvikling. Strategi for dansk udviklingspolitik frem mod år 2000 (A World in Development. Strategy for Danish Development Policy)*, Copenhagen 1994.

<sup>32</sup> *Unpacking Danish Decentralised Aid Management*, op.cit., p. 6.

<sup>33</sup> Danish Ministry of Foreign Affairs, *Partnership 2000. Denmark's Development Policy Strategy*, 2000.

- Stability, security and the fight against terror by fighting underdevelopment and securing democratisation to avoid terror and religious fundamentalism;<sup>34</sup> and
- Attention to refugees in their local area in the context of the increased inflow of illegal immigrants to the EU.

Providing help to refugees in their home region was in fact nothing new, but it was the first time it had been given a dedicated priority and such a strong focus. The resulting tendency was a move away from a development policy paradigm based on idealism, altruism, and fighting poverty towards one increasingly reflecting Denmark's own interests and to serve as means to gain political influence in the partner countries. To this purpose the new Danida proved to be an extremely useful instrument.

Due to its increased focus on countries affected by fragility, Denmark has set up a number of cross-governmental structures to promote peace and stability, including policies in the areas of social development, security, diplomacy, and military arrangements. In order to tackle this range of priorities appropriately, Denmark is promoting a holistic approach to fragile states and has created the Danish Stabilisation Fund, the inter-ministerial group, and the Afghanistan Task Force, which together seek more integrated and effective support to Afghanistan and other fragile states. Denmark aims, through its achievements and experience in working with civil-military co-ordination in fragile states, to influence other international actors and organisations to achieve better international co-operation and co-ordination.

The Danish Stabilisation Fund disposes of DKK 150 million a year, both for both development assistance and non-ODA funding. The aim of the fund is to enable an '*enhanced effort in the overlap between security and development*' and to create a platform and a funding mechanism through which both national and international civil-military interventions can be discussed and co-ordinated. Having sufficient staff from the different policy communities actively involved in the design of and decision-making regarding interventions,

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<sup>34</sup> As evidenced in a devoted report, aid strategy which takes account of security challenges could have significant effects on the links in the casual chain of terrorism: 1) co-operation with Arab donors and diaspora communities can bring about lowering of tensions in the global sphere; 2) support for national and international democracy ("inclusive globalization") is likely to create non-violent alternatives to terrorism; 3) filling the security, health and education vacuums and working in difficult partnerships combined with the surveillance of money flows reduces the options for terrorist organizations and de-escalates conflicts; and 4) promoting human-rights-sensitive governance helps in general to reduce terrorist violence. From: *Development Co-operation as an Instrument in the Prevention of Terrorism*, research report ed. T. Kivimaki, Copenhagen, July 2003, p.99–118.

the fund is flexible enough to respond more holistically to international peace and security challenges.<sup>35</sup>

Also the newly proposed alterations (February 2012) in the Danida strategy, focusing on the rights-based approach, as discussed with the wider community and public through to and including the new centre-left Danish government (in power since Autumn 2011), are not likely to destabilise the aid delivery system and its basic fundamentals, proving that in Denmark aid policy is less vulnerable to changing governments and current political trends etc., due to its broad popular support, strong involvement of the private sector (see below) and NGOs, as well as the continuously maintained focus on poverty.

Last but not least, benefits arising from the integrated model of aid delivery are evidenced by the fact that it is the Foreign Ministry that now generally takes the lead in co-ordinating EU matters in Denmark and is therefore best placed to ensure policy coherence for development (PCD) and is more systematic and practical about delivering results.<sup>36</sup>

## **5. The motivation behind the broad Danish private sector engagement in development aid: corporate responsibility or commercial interest?**

Danida has achieved a high degree of private sector (mainly Danish) involvement in development co-operation which contributes, on one hand, to wide public support and a strengthened public mandate for its aid activities and, on the other hand, provides tangible economic and business advantages for the companies involved, resulting in an overall increase of Danish ODA and a more attractive toolbox for Danida in its operations in partner countries. A secondary effect of Danish business engagement in aid delivery is the process whereby ODA money comes back to the donor state and its entities (in some part), creating jobs, improving business links and opportunities for economic activities (including exports, investments etc.) for Danish private businesses. The Danish pattern is even more cherished as it is officially recognised that Danish aid is tied only to a tiny extent to conformity with strict OECD/DAC rules.<sup>37</sup>

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<sup>35</sup> *OECD/DAC Peer Review*, op.cit., p. 38–39.

<sup>36</sup> *OECD/DAC Peer Review*, op.cit., p. 37.

<sup>37</sup> 'Tied aid' is a term used to describe official grants or loans made to recipient countries that limit the procurement of goods or services to the donor country. Untying aid is therefore considered a key test of donors' commitment to coherent policies and effective aid delivery. Denmark continues to play its part in this process: it has untied all of its food aid since 2005, and its technical assistance since 2008. Denmark's untied aid currently comprises 97% of all its aid; this places Denmark in the top category of OECD donors which have, according to the DAC recommendation of 2001, either fully or almost fully untied their aid (DAC data): *OECD/DAC Peer Review*, op.cit., p. 46.

The spectrum used is rather large: it consists of three main distinctive instruments (described below) and widespread private sector participation in ‘non-private’ programmes in the form of provision of services, consultancy, accountancy (especially in capacity-building), auditing etc.

The most powerful tool for private sector involvement in development aid is the Industrialisation Fund for Developing Countries (IFU – to be renamed the Investment Fund for Developing Countries under the new legislative proposal), which is inscribed into the basic legislation – the Danish Act on International Development Co-operation. Section 9 of the Act provides that the Fund is an independent institution promoting investment in developing countries in co-operation with Danish trade and industry and that the Government may subsidise its activities. The Fund may provide support for Danish investments by subscribing its shares, funding analyses of investment options, granting loans, providing guarantees, and other similar activities. The Minister for Development Co-operation plays an important role in the IFU by appointing the members of the IFU’s Board of Directors, including its chairman and deputy chairman, as well as a managing director who manages IFU’s daily business.<sup>38</sup> The new legislative proposal keeps these provisions intact virtually unchanged.<sup>39</sup>

The Fund, which has been in operation since 1967, allocates approx. 500–650 million DKK per year and since its inception has created around 140,000 jobs. Its initial capital, received from the state, was paid off in 2006. By and large, the Fund is highly praised among Danish private businesses. In the vast majority of cases its operations generate the extra bonus of having positive effects on Danish business partners: Danish enterprises that take the step of expanding into poor and less-developed countries get the required capital and knowledge to safeguard their investment (through loans, guarantees and share purchases), but also receive assistance, through IFU’s global network of local employees and advisers (including 5 regional offices in Beijing, New Delhi, Nairobi, Johannesburg and Accra) in overcoming traditional bureaucratic, cultural and language barriers.

Another instrument is Danida Business Finance (DB Finance) which is in fact a soft-loan programme managed by Danida staff (earlier known as the Mixed Credits Scheme). DB Finance increases access to long-term financing through the involvement of commercial actors for investments in important infrastructure projects, especially in Africa, which lay the groundwork for economic growth. DB Finance also aims at minor industrial projects with direct job-creating potential. but which cannot be financed under normal market con-

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<sup>38</sup> *Denmark’s Participation in International Development Co-operation*, op.cit., p. 184–185.

<sup>39</sup> <https://www.borger.dk/Lovgivning/Hoeringsportalen/Sider/Fakta.aspx?hpid=2146003187> (last visited 20.02.2012).

ditions. DB Finance targets key infrastructure sectors where investment improves the climate for economic development, in particular for the private sector. The main sectors are transportation, energy, water supply, and sanitation. In all areas, climate-friendliness and cleaner technology is a top priority.

DB Finance offers interest-free or low-interest loans. A typical loan has 10 years' maturity and is issued in USD or EUR. The subsidy provided by DB Finance consists of up to three elements: payment of interest – in full or in part; payment of the export credit premium and other associated financial costs, and a cash grant to reduce the principal of the loan, if the above does not amount to the subsidy level required by the ruling OECD agreement. The borrower repays the loan in equal, semi-annual instalments, normally starting six months after the commissioning of the project. The borrower pays only a commitment and a management fee.<sup>40</sup>

The element of the programme that ties in the private sector consists of an obligation that companies are registered in Denmark, although goods or services can originate from any country. This instrument is popular amongst Danish companies and effectively complements the set of aid delivery tools.

The third instrument in this category is Danida Business Partnerships (DBP), which replaced the Business-to-Business Programme (B2B). Danida Business Partnerships facilitates the establishment of partnerships that, together, make up a critical mass that can significantly impact development in poor communities. DBP supports partnerships between a wide range of partners in many combinations. One option is the business-to-business co-operation between two companies. Another is to facilitate broader, innovative partnerships, e.g. involving private companies, NGOs, research centres, local authorities etc. It is a prerequisite that at least one private Danish company takes part in the partnership. Another condition is that the partnership has a commercial orientation, creates decent employment, and contributes to local development, e.g. through strategic corporate social responsibility (CSR) initiatives. Moreover, a precondition for support is that a partnership put up some of its own funds. Danida Business Partnerships serves to lower the risk of entering into new partnerships by contributing towards relevant expenses e.g. related to the transfer of knowledge and skills, covering up to 50–75 per cent of the costs of activities. Accordingly, Danida supports the development of a viable business model for partnerships, including a wide range of specific activities, like partner identification, market analyses, risk analysis, due diligence, development of a business plan etc.<sup>41</sup>

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<sup>40</sup> <http://um.dk/en/danida-en/activities/business/finance/> (last visited 20.02.2012).

<sup>41</sup> <http://um.dk/en/danida-en/activities/business/partnerships/> (last visited 20.02.2012).

This instrument is also widely used, but a major constraint is that only 19 partner countries are covered by DBP.

## 6. What does Denmark owe Danida?

It cannot be denied that Denmark's long-standing status as a 'global top donor' has strengthened its international position and its influence in the external dimension, allowing it, for example, to promote its model of the welfare state and perhaps more importantly to export 'the Nordic model' to the world. Denmark, although a small European country, effectively uses the notion of 'soft power' to create global links, partnerships, and the means to intervene overseas and to make a difference in the outside world. The international reputation of Denmark as a global donor is more prominent than its role as a member state in either NATO or the UE and gives it the opportunity to step out of the 'small state' shadow and sharpen its profile on the international arena. Unquestionably, Denmark's image has improved among the like-minded countries of Scandinavia, as well as the Netherlands, Canada, and in general terms among the entire international donor community. At the same time, Danida has achieved the right balance between the idea, supported by the Danish business lobby, to get a portion of aid money back<sup>42</sup> and internationally recognised poverty reduction objectives, while also playing a role in the sphere of international security in conflict or post-conflict areas, preventing terrorism, migration, supporting human rights etc.<sup>43</sup>

As result of the broad public support for development aid in Denmark and the focus on poverty that has been maintained, this policy has been increasingly less vulnerable to changing governments, with successive coalitions even adding some specific colours, as is now the case when, after a decade of liberal-conservative governments concentrated on freedoms, the private sector etc. and on reducing ODA appropriations, the present centre-left cabinet promotes the rights-based approach combined with more ODA commitments. Yet in point of fact, neither the proposed new legislation on development co-operation nor the strategy constitute any kind of conversion in Denmark's well-established tradition of development co-operation. Rather the proposed changes fine-tune the existing aid institutional framework, making it more open, transparent and adjusted to present challenges and constraints.

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<sup>42</sup> However, the Danida partner countries eventually selected are not as lucrative as Danish business would like. Concentration on Africa, for example, where Denmark has less potential of exploiting the market, shows that in the Danish case aid is not necessarily connected to market benefits.

<sup>43</sup> *Idealer og realiteter...*, op.cit., p. 519–534.

## 7. What is the rationale behind Danida's strength?

In light of Denmark's recognised position as one of the top world donors in terms of providing quality aid with a real global impact, the question arises of the rationale and main reasons for this indisputable success.

The key points can be summed up and listed in a straightforward fashion:

- 1) Broad public support for development aid,<sup>44</sup> including a political inter-party consensus and agreement in parliament; a large role for civil society and the private sector as well as academia, based on the widely-recognised combination of poverty reduction goals and the promotion of Danish interests in a way which is in line with UN/OECD/UE rules (MDGs, Paris Declaration on Aid Effectiveness, European Consensus on Development etc.), as well as on an effective public accountability system (MDG do not overshadow *realpolitik*);
- 2) A solid legal and institutional base as a result of a long-term evolution and adjustment process, resulting in a strong MFA-based, well-integrated and decentralised system of aid delivery;
- 3) Focus on a limited number of beneficiary countries with an established (by parliament) set of criteria for the selection of countries<sup>45</sup> and a proven phasing-out policy;
- 4) Use of a proper approach: identification of targets and strategy first, then instruments and comparative advantages available, which are eventually employed, achieving a successful merger between development strategy and aid strategy;<sup>46</sup>
- 5) Proper selection of aid modalities, with strong focus on sector-wide programme support and general budget support and a limited use of project support (which is given a complementary role, as it is no longer compatible with up-to-date trends and guidelines when treated as a primary modality);
- 6) Successful long-term involvement of the private sector, not only in terms of a corporate responsibility formula but in a business interest-based approach, safeguarded by legislation at the top;

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<sup>44</sup> In 2010, 94% of Danes thought it was important to help people in developing countries, which is slightly higher than the EU average of 89% (Eurobarometer, 2010), after: *OECD/DAC Peer Review*, op.cit., p. 32.

<sup>45</sup> Statement by a majority of members of the Foreign Affairs Committee, in the Committee's report on the selection of future partner countries in relation to Danish development assistance, 23.05.1989, in: *Denmark's participation... 2007*, op.cit. p. 186.

<sup>46</sup> See: *Foreign Aid and Development, Lessons Learnt and Directions for the Future*, ed. F. Tarp, London and New York 2002, p. 13: 'A successful aid programme requires matching one or more elements of a desirable development strategy with an appropriate aid strategy, supported by well-designed modalities and effective implementation'.

- 7) A focus on quality assurance and a results-based management, including a benchmarking system for satisfactory goal achievement<sup>47</sup> and strengthened, transparent anti-fraud safeguards;<sup>48</sup>
- 8) A perfect link between the principle of ownership and aid conditionality achieved by means of a system of governmental agreements on development co-operation concluded between Denmark and a partner country (which has the added advantage of making Danish aid predictable for its recipients);<sup>49</sup>
- 9) A smart merger of ODA and non-ODA money, bringing more synergy and added value to external actions using development aid money, on the basis of joint development and e.g. security objectives (for example, the Danish Stabilisation Fund) and also climate change financing;
- 10) Independent evaluation (institutionally detached from the development aid section of the Ministry);
- 11) Accountability before parliament within a four-year framework plan of expenditures.

The above described model, which in fact has evolved over the last fifty years, could be a good *a-la-carte* menu for other less experienced donor countries, especially emerging donors which are in search of best practices, and proven records, choices, modalities etc. Denmark provides a positive answer to the general question which is so commonly posed: ‘*Does development co-operation work?*’ It is not only one of the most generous global donors but, more importantly, because of its smart, integrated approach (in particular the retreat from a stand-alone agency towards an MFA-based aid delivery system) its aid programmes enjoy broad public support. Development aid, which is well integrated into the overall foreign policy of the state and its trade and investment strategies, helps position Denmark at or near the top in international rankings and therefore has increased its reputation, influence, and weight within the international community.

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<sup>47</sup> *Denmark's participation... 2010*, op.cit., p. 155–156.

<sup>48</sup> *Ibidem*, p. 157–159.

<sup>49</sup> *The Guidelines for Development Co-operation Agreements* outline how Danish Embassies and departments enter into agreements with partners: <http://amg.um.dk/en/menu/Management-Tools/GovernmentAgreements/> (last visited 24.02.2012).