

The DAC's main findings and recommendations

1

Towards a comprehensive Danish development effort

Indicator: The member has a broad, strategic approach to development and financing for development beyond aid. This is reflected in overall policies, co-ordination within its government system, and operations

Main findings

As a member of the Open Working Group on Sustainable Development Goals (SDGs), Denmark has played a strong leadership role in the development of Agenda 2030, particularly on the promotion of human rights and support for peacebuilding and stabilisation. For example, Denmark's high level of political engagement on gender equality, and sexual and reproductive health and rights has contributed to more progressive language in the global goals.

Denmark is now developing an action plan to follow up on Agenda 2030. At the same time, it is working on a new development co-operation strategy, founded on the SDGs. Denmark is therefore in a good position to anchor its development co-operation into a national whole-of-government approach to implementing the SDGs. As this work progresses, Denmark will need to consider how it can best contribute to the global public goods both through its external and domestic policies, and through multilateral channels and co-ordinated interventions. It also needs to consider the balance between development and commercial objectives when working with, and through, the private sector.

Denmark has a strong record in ensuring its policies impact positively on, or do not harm, developing countries' own development efforts. This is reflected in Denmark's first place ranking in the 2015 Commitment to Development Index. Over the past five years, Denmark has strengthened its commitment to co-ordinating and promoting policy coherence. In 2011, Denmark's International Development Cooperation Act anchored policy coherence as a foundation for Danish foreign policy. In 2014, in line with recommendations from the 2011 peer review, Denmark released its first policy coherence plan, A Shared Agenda: Denmark's Action Plan for Policy Coherence for Development, encompassing trade and finance, food security, climate change, and peace and security with strengthened mechanisms for arbitrating on policy trade-offs. In view of the ongoing global migration crisis, Denmark is currently considering whether it might include migration as an additional priority for its action plan.

However, Denmark faces an ongoing challenge in building understanding of policy coherence in line ministries. Furthermore, although its action plan commits Denmark to report annually on policy

coherence, the government decided not to do so but to follow up this commitment by formulating a SDGs action plan, which will now drive policy coherence. Going forward, the Ministry of Foreign Affairs will be responsible for co-ordinating formulation of the action plan and the Ministry of Finance will oversee its implementation.

With its largest multinational enterprises operating globally in sectors such as shipping, pharmaceuticals and renewable energy, Denmark's development finance instruments target sectors where it has established an international comparative advantage. However, the extent to which Denmark's official development assistance and other official financing instruments actually leverage other development flows and their development impact is not well monitored. Denmark is currently considering establishing new financial instruments to catalyse development finance. Denmark would benefit from a clear strategy setting out how these investments will maximise sustainable development impacts, as well as increased capacity to engage the private sector effectively.

Recommendations

- 1.1** To take forward its vision for Agenda 2030, Denmark should increase cross-government understanding of the implications of its commitment to ensuring its policies are consistent with sustainable development objectives.
- 1.2** In line with its 2014 action plan, Denmark is encouraged to report publicly on its achievements and challenges in ensuring that its domestic and foreign policies are development friendly.
- 1.3** In the frame of its private sector instruments, Denmark should continue efforts to set up few, large and demand-driven private sector facilities with clearly defined development objectives.
- 1.4** Denmark should examine how to better capture the additionality of, and return on, private sector instruments in developing countries.

2

Denmark's vision and policies for development co-operation

Indicator: Clear political directives, policies and strategies shape the member's development co-operation and are in line with international commitments and guidance

Main findings

Denmark has a clear vision for its development co-operation programme. The Right to a Better Life strategy – approved by Parliament in 2012 with cross-party support – sets out Denmark's priorities for its development co-operation and, until recently, has guided the overall direction of the programme.

While aiming to promote Denmark's interest in a peaceful, stable and equal world, the strategy prioritised poverty reduction. The strategy also introduced a human rights-based approach which anchored the focus on poverty at the heart of its programming. In particular, the human rights-based approach emphasised support to civil society as a cross-cutting tool for assessing and addressing the root causes of poverty. As Denmark increases its focus on private sector-led growth and Danish private sector engagement as an engine of development, continued attention to the human rights principles of non-discrimination and inclusion can provide directions to support the development of an inclusive private sector while maintaining a strong poverty focus.

The Right to a Better Life integrated the environment and gender equality as priorities and pillars of Denmark's development co-operation. These are addressed in the programme through policy dialogue, as well as through targeted and mainstreamed activities, in accordance with Busan commitments.

With a continued focus on fragility and increased attention to tackling the root causes of migration and humanitarian assistance, Denmark is now in a strong position to design a model that integrates humanitarian and development streams.

As Denmark drafts its new strategy for development co-operation, it also has a chance to develop a more operationally oriented strategy that provides clearer guidance and strengthens the coherence between strategic objectives and allocations of official development assistance (ODA). Indeed, the broad definition of objectives within The Right to a Better Life has required numerous sub-strategies and extensive management guidelines, leading to the multiplication of internal documents to facilitate implementation.

In addition, although the 2012 strategy facilitated country programmes' concentration on particular sectors, it did not provide guidance on geographical

focus. Activities to tackle global challenges and leveraging private sector funding can be implemented in any country eligible for ODA, and the selection of partner countries and territories remains the government's prerogative. For instance, while Denmark is reducing the number of priority partners from 21 to 14 countries and territories in 2016, it has not clearly communicated how it selected which partner countries to withdraw from.

Finally, in the past, Denmark's funding arrangements and ODA allocations were not always consistent with its strategic objectives. For example, Denmark's multilateral policy aims to support a well-functioning multilateral system and advance its strategic priorities. However, from 2010-14, Denmark's core contributions fell as a share of multilateral aid. In addition, the recent increase in ODA allocated to managing refugee costs within Denmark raises questions over whether ODA allocations will remain aligned to the focus on poverty reduction.

Recommendations

As Denmark revises its development co-operation strategy, it should:

- 2.1** Clarify how the Sustainable Development Goals will guide its development co-operation, while safeguarding the pro-poor focus of its ODA-funded activities.
- 2.2** Within the new priorities, define operational objectives and criteria to prioritise activities and guide the selection of priority partners and funding instruments.
- 2.3** Reiterate the rationale for Denmark's support to multilateral organisations and align its funding allocations with its objectives.

3

Allocating Denmark's official development assistance

Indicator: The member's international and national commitments drive aid volume and allocations

Main findings

Denmark has long maintained a reputation as a generous and predictable partner for developing countries and multilateral partners alike. Its official development assistance (ODA) is above its international commitment of providing 0.7% of its gross national income (GNI) as ODA. In 2015, provisional figures show that Danish ODA stood at USD 2.6 billion, equivalent to 0.85% ODA/GNI, making Denmark the thirteenth largest donor by volume.

This picture is now changing. From 2016, the overall volume of Denmark's ODA is scheduled to fall in line with the current government's pre-election promise to bring the ODA/GNI ratio to 0.7% while honouring previous commitments.

The composition of Danish ODA is also shifting. Spending on refugees within Denmark is expected to triple in 2016 to reach 30% of Denmark's gross ODA. At a time when many other donors are seeking new approaches to managing refugee costs, Denmark's ODA budget is bearing the brunt of the crisis. Combined with the overall decrease in the ODA budget, this means that funding for development assistance managed by the Ministry of Foreign Affairs has declined by 42%.

This significant change in ODA allocation presents significant challenges for the predictability and quality of Denmark's development co-operation overseas.

In 2014, almost three-quarters of Denmark's ODA were provided bilaterally, with allocations focused on the poorest countries and territories and on fragile states. However, a rising share of Denmark's ODA is unallocated which can be partly explained by increased allocations to regional programmes. As a consequence, in 2014, only one-quarter of Denmark's bilateral ODA went to Denmark's top ten recipients, down from 40% in 2007. This trend is likely to continue as a greater share of the bilateral ODA budget is spent on refugee costs in Denmark or allocated to centrally-managed thematic funds.

From 2011-14, Denmark's allocations were in line with the four priority areas outlined in its strategy, The Right to a Better Life. Around 60% of bilateral allocable ODA had gender equality or women's empowerment as a key objective, double the Development Assistance Committee average. More than one-third supported

the environment. However, following the change in the composition of Denmark's ODA, there is a growing gap between financial allocations and strategic priorities. For example, while the environment and climate change are top priorities in The Right to a Better Life, the budget for natural resources, energy and climate change activities has been particularly affected by the 2015-16 budget cuts compared to other budget lines, down by 54%.

Denmark has been a good contributor to, and valued partner of, multilateral organisations, with lean management processes and a reputation for predictable and flexible funding. Nevertheless, Denmark's share of core resources to multilateral organisations continued to decline from 2010-14. Preliminary data for the United Nations Development Programme indicates core resources from Denmark fell from USD 60 million in 2014 to USD 47 million in 2015, down 22%. Further reductions are anticipated as Denmark shifts core resources to multilateral thematic funding windows.

Following the budget cuts, Denmark's non-core allocations have also declined, with several key partners reporting significant decreases. For example, Denmark's non-core allocations to the United Nations Children's Emergency Fund fell by half between 2014 and 2015, from USD 28 million to USD 15 million. This decline in support for key multilateral partners, in both core and non-core funding, runs counter to the recommendation of Denmark's 2013 analysis of its multilateral co-operation, which was to increase support to key partners. It is unlikely to support Denmark's ambitions to increase its influence in this sphere.

Recommendations

- 3.1** Denmark is encouraged to fully consider the impact of reallocating its ODA to manage refugee costs. This affects the predictability of Denmark's development co-operation programme dealing with poverty reduction in developing countries.
- 3.2** When deciding on multilateral allocations, Denmark, along with other donors, should take into account the impact of core versus earmarked funding on the ability of these organisations to carry out their mandate.

Main findings

Following the recommendations of the DAC 2011 peer review, Denmark improved the organisational structure and management of its development co-operation. By 2015, Denmark had strengthened its mechanisms for decision making and co-ordination across government. It had reviewed its human resource policy to enable more effective implementation of its Right to a Better Life strategy. Danish development co-operation policy has also become increasingly integrated with foreign and trade policies within the Ministry of Foreign Affairs, with new links across government as well as increased opportunities for synergies. As a result, other government departments and agencies are becoming increasingly involved in the delivery of development co-operation. For example, Denmark's Peace and Stability Fund is jointly managed by the ministries of Foreign Affairs, Defence and Justice, while Denmark's development finance institution implements part of the official development assistance (ODA) budget for private sector development.

However, in 2015, in response to budget cuts, the Ministry of Foreign Affairs implemented organisation-wide staff reductions, equivalent to 9% of its headquarters and posted staff. In March 2016, a new organisational structure was announced ahead of a new strategy for development co-operation, due for release in the second half of 2016. Key changes included: downsizing the ministry's Centre for Global Cooperation, reducing the total number of technical and development co-operation specialists, and separating the management of multilateral and bilateral units, which were formerly integrated into country and regional desks.

New challenges for the organisation and management of Denmark's development co-operation include:

- Ensuring Denmark has the right skills in the right places to effectively manage and deliver its development co-operation. The new strategy is expected to include a strong focus on private sector engagement and fragile states, both of which are likely to require new technical expertise, cross-policy skills and local knowledge. The ministry is already anticipating these new demands and trying to address them through its new organisational structure. However, improving the match between programme needs and resources is

likely to require new incentives for development staff to be deployed to fragile states and increased embassy-level involvement in posting and recruitment decisions. At the same time, it will be important for Denmark to retain sufficient technical expertise to support quality implementation of its development co-operation.

- Maintaining predictability of funds allocated to implementing partners. In 2011, Denmark's ODA was almost exclusively administered by the Ministry of Foreign Affairs. This is now changing, as the ministry's administrative responsibility for the total ODA envelope declines. For example, in 2011, only 4% of Denmark's ODA was administered by the Ministry of Refugees, Immigration and Integration Affairs, whereas this share is expected to increase to up to 30% of Denmark's ODA budget in 2016. As a result, it is increasingly difficult for the Ministry of Foreign Affairs to predict its allocations, affecting its ability to maintain its good practice of multi-year agreements with partners.
- Sustaining the strengths of Denmark's decentralised model for development co-operation. Denmark's development co-operation is co-ordinated at headquarters, with management of the programme highly decentralised to embassies in the field. However, budgetary constraints, organisational reforms and an increase in thematic funding compared to country programming have resulted in reduced numbers of Danish posted staff.

Addressing these challenges is likely to require greater co-operation and increased understanding of development co-operation across government. It may also need new technical and cross-policy skills to ensure Danish development co-operation is fit for purpose in the era of the 2030 agenda for sustainable development.

Recommendation

4.1 Following the release of the new strategy, Denmark would benefit from assessing whether its new organisation is fit for purpose.

5

Denmark's development co-operation delivery and partnerships

Indicator: The member's approach to how it delivers its programme leads to quality assistance in partner countries, maximizing the impact of its support, as defined in Busan

Main findings

Denmark is a strong advocate for, and adherent to, the Busan Principles for effective development co-operation.

Commitment-based budgeting allows Denmark to provide its priority countries and territories with predictable multi-year funding, committed for the whole duration of country programmes. Budget lines for thematic programmes, committed annually, also provide some degree of predictability as Parliament approves three-year indicative budgets. However, the predictability of Denmark's annual commitments fell in 2015 after unforeseen budget cuts and the reallocations within the official development assistance (ODA) budget. These changes affected implementing partners and the coherence of country programmes, such as in Ghana.

New country programming and rights-based gap analysis enable Denmark to tailor programmes to country context, especially in fragile states where inequalities are drivers of conflict. In addition, detailed risk assessments – introduced after the 2011 peer review – and budget flexibility within the results framework give embassies the capacity to adjust their programmes as the context changes. Denmark's highly decentralised aid management used to support this strong alignment and flexibility. However, this model might be under threat as the share of Denmark's ODA programmed and managed within countries decreases.

Denmark uses joint co-ordination arrangements to reinforce the division of labour, increase the use of country systems and promote accountability. In fragile states in particular, Denmark champions multilateralism and pooled funds, which increases its influence at strategic level.

Flexible partnerships with non-governmental organisations (NGOs) and the private sector are key instruments in Denmark's development co-operation programme and go hand in hand with a strong emphasis on strengthening institutional and individual capacities. This inclusive approach helps Denmark address development challenges from different entry points and has the potential to increase its impact.

Building on its good track record, Denmark is well positioned to further improve the quality of its programming and partnerships.

As Denmark is increasing its engagement in fragile states, the current two-year design cycle affects Denmark's ability to react to rapid changes. Ongoing efforts to plan for different scenarios and provide systematic technical support to embassies in the design stage should help speed up programming and improve timely implementation. Further efforts to anticipate the impact of risks on development outcomes and address reputational risks can also increase timeliness and protect Denmark's reputation.

Denmark is committed to using country systems as the default option, including in fragile states. As it moves towards increased partnerships with non-state actors, Denmark will have to consider how it might make the most of its good track record in using country systems and maintaining a high share of ODA on budget, even when its programme is not implemented by partners' governments.

Further efforts to select partners strategically could also increase the impact of Denmark's development co-operation. For example, adding NGOs' capacity to become drivers of change to the selection criteria would help Denmark reach its objective of supporting a vibrant and diversified civil society.

Finally, given that the next development co-operation strategy is expected to increase Denmark's emphasis on leveraging private sector resources, continued attention to the principles of untied aid will be critical. Denmark has consistently kept 95% of its ODA untied, which is good practice. However, funds disbursed by Denmark's Investment Fund for Developing Countries (IFU) are 100% tied and it is unclear at this stage if Denmark's future business instruments will be tied.

Recommendations

- 5.1** Denmark should speed up its programming processes to increase timely implementation, especially for fragile states.
- 5.2** Denmark should pursue its efforts to strengthen risk assessments to inform programming. In particular, it should select its partners based on an in-depth assessment of institutional risk.
- 5.3** Denmark should identify effective ways of promoting private sector engagement that do not increase the share of tied aid.

6

Results and accountability of Denmark's development co-operation

Indicator: The member plans and manages for results, learning, transparency and accountability

Main findings

Denmark is strengthening its results-based management across its portfolio. It is moving from monitoring outputs achieved at project level to outcomes achieved in partner countries. For instance, it uses output and outcome indicators for project reporting and newly launched real-time evaluations will measure progress towards outcomes every year. In fragile contexts, Denmark is developing a pragmatic approach, measuring its contribution to transformative processes rather than strictly monitoring outputs.

Denmark discusses information about results with its partners to inform decision making at project level. The introduction of a performance-based resource allocation model to fund Danish non-governmental organisations (NGOs) demonstrates Denmark's attempts to link results to budgetary decisions.

Denmark also provides support to implementing partners to build their own monitoring and evaluation mechanisms, as they are responsible for monitoring and reporting on results. For instance, Denmark is piloting a collaborative partner-donor evaluation with Ghana. Denmark will therefore need mechanisms to consolidate and check the quality of the information it receives from different partners to inform decisions at a policy level.

Further efforts to define results at country level could also facilitate outcome monitoring and provide useful information for strategic decisions. Indeed, country strategies still formulate results as broad objectives, not as measurable results, and corporate reports present the percentage of goals fulfilled rather than results achieved.

Denmark's 2016 evaluation policy strengthened its emphasis on using results in decision making, introducing new evaluation instruments such as real-time and follow-up evaluations, management responses, and dedicated management meetings. However, a 2014 peer review of the evaluation function identified a gap in strategic evaluations which has not been filled.

Knowledge management remains an ongoing challenge. Knowledge is neither consolidated nor disseminated well enough to staff, and there are no systematic feedback loops between decentralised and central levels. This will become more problematic as

the proportion of local staff rises and development is increasingly managed across government departments.

Denmark is commended for its commitment to transparency and the quality of its communication strategy, which enhances accountability and raises development awareness. Its transparency is demonstrated by the up-to-date data on its OpenAid website, with information on risks and results, as well as public hearings. Denmark is now well placed to push the agenda further by helping its partners reach the same degree of transparency.

Denmark's communication strategy and annual surveys of Danes' attitudes towards and knowledge of development assistance help it identify target groups and adjust communication tools accordingly. Partnerships with schools, NGOs, the private sector and researchers, as well as the use of social media, ensure the engagement of a broad audience.

However, the latest annual public opinion poll shows that support for development co-operation has fallen from 70% to 60% over recent years. Even though public support remains high compared to other Development Assistance Committee members, this fall suggests that Denmark should invest further in maintaining public support, particularly at a time when development assistance expenditures are shifting towards national interests and commercial co-operation.

Recommendations

- 6.1** Denmark should pursue its efforts to link measurement of programme level outcomes with national development indicators to better inform its policy decisions.
- 6.2** Denmark should consolidate its knowledge management system to capitalise on knowledge produced in the field and by its partners, including civil society organisations, and strengthen information sharing.
- 6.3** To rebuild public support, Denmark should do more to communicate the interdependence between Danish interests, development goals and global public goods in a comprehensive framework, while maintaining the voice of development co-operation.

Main findings

Denmark's strong performance as a humanitarian donor and its pioneering policy work on the coherence between humanitarian and development approaches place it in a good position to elaborate a new strategy integrating the thinking emerging from the World Humanitarian Summit.

Denmark's humanitarian assistance is focused on a small number of protracted crises. The strategy aims to break the cycle between crisis and vulnerability and uses humanitarian support as a building block for long-term development. Denmark is also committed to Good Humanitarian Donorship principles. This strategy has the potential to increase the impact of its humanitarian programme.

Denmark's whole-of-government efforts put it in a good position to confront complex crises, in which humanitarian aid, development assistance, migration policies and statebuilding are closely bound. With solid and constant policy work, active interactions with other development co-operation providers and participation in multilateral organisations' boards, Denmark also has influence over the global humanitarian landscape.

In spite of the global migration crisis, Denmark enjoys wide public and political support for its humanitarian efforts. This support is nurtured by a high level of transparency, which can be considered best practice.

Denmark has succeeded in preserving its humanitarian budget amidst overall decline in official development assistance. However, decreasing allocations to multilateral partners threatens the coherence between humanitarian and development operations, as many of the multilateral agencies have a dual mandate, working on both emergency and development. Increasing humanitarian allocations while reducing the development budget risks affecting Denmark's ability to bridge the gap between the two workstreams and presents challenges for addressing the root causes of conflict and migration given the long-term commitment these issues require.

Denmark has designed its humanitarian tools and procedures with the aim of improving aid effectiveness and reducing its partners' administrative constraints and transaction costs. Dialogue, predictability and flexibility are prominent features of Denmark's humanitarian partnership. This flexibility gives Denmark latitude to engage, from rapid response

deployment to resilience building and risk-reduction operations. The proposed Danida Emergency Relief Fund would increase Denmark's capacity to partner with a broader range of humanitarian actors, even though it usually works with a deliberately narrow portfolio of capable partners. Multilateral organisations also value Denmark's core contributions to their organisations, which increase their ability to fulfil their mandate and to respond rapidly to new emergencies.

The humanitarian policy and funding portfolio is managed by a knowledgeable team within the Ministry of Foreign Affairs. Partnership modalities, such as the Central Emergency Response Fund, and core funding to multilateral organisations are well adapted to management by a slim structure. However, it does not allow for in-depth oversight of implementation or to manage a solid monitoring plan, which can therefore affect Denmark's capacity to make well-informed decisions.

With strong policy work and a light field footprint, Denmark is not taking full advantage of its recognised policy influence to ensure that the results of its programmes match its global ambition as a quality humanitarian donor. In particular, results measurement is overly dependent on self-reporting by partners, leading to information of uneven quality. More substantial joint monitoring partnerships with other donors supporting the same large humanitarian projects, and increased use of third-party monitoring, especially in areas where direct access is constrained, could give Denmark the information it needs without increasing red tape.

A deeper understanding of the field-level implementation of its projects would permit Denmark to better use its flexible funding and capacity to learn and adjust its humanitarian programming.

Recommendations

- 7.1** Denmark should ensure its policy work on humanitarian-development coherence is supported by relevant funding streams for both humanitarian and development activities.
- 7.2** Denmark should reinforce its measurement of outcomes and impact to inform and strengthen its policy work.

