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# ESSAYS ON DEVELOPMENT AND DEVELOPMENT COOPERATION

Ole Winckler Andersen, Lars Engberg-Pedersen, Adam Moe Fejerskov, Mikkel Funder, Abel Gwaindepi, Esbern Friis Hansen, Marie Kolling, Rasmus Hundsbaek Pedersen, Finn Stepputat, and Ole Therkildsen

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Finn Stepputat, and Ole Therkildsen**

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# INTRODUCTION

Lars Engberg-Pedersen

It is often argued that business-as-usual is inadequate in this or that situation, but the need to rethink development cooperation has now become acute. First, it is obvious that the overall ambition of reducing poverty is not being achieved. The COVID-19 pandemic, climate and debt crises, and soaring food and energy prices have set the world back. Second, the international cooperation required to achieve the SDGs has faltered. Since the adoption of the 2030 Agenda in 2015 geopolitics has significantly weakened the basis for cooperation and for addressing the different global crises. Third, the relationship between the Global South and the Global North has become tense and this complicates traditional development cooperation. The appetite for receiving aid is dwindling despite the immense need in many places. Moreover, the European insistence only on own interests in the approaches taken to address migration, Ukraine and Gaza further sours cooperation. Fourth, the grossly inadequate financial resources that rich countries, despite their affluence, are prepared to mobilise publicly, privately or through new measures in the current situation, is evidence to most people in poorer countries that they are on their own. The lack of solidarity shown during the COVID-19 pandemic is a bitter memory supporting this view. The deficient attempts to deal with the debt crisis undermining low-income countries' development efforts are a contemporary reminder of high-income countries' indifference. Thus, why should the Global South expect a fruitful cooperation with the Global North? Fifth, international development cooperation itself does not live up to the principles for effective and efficient development efforts, such as emphasis on ownership, focus on development problems, adaptation to context, and concentration on least developed countries. Against this background, it would be erroneous to simply tweak current development cooperation or to focus on updating Danish short-term interests when revising the relevant strategy. Doing so would render Danish development assistance obsolete and irrelevant for development purposes. The challenge seems to lie in reconceptualising development cooperation to ensure that it addresses concrete development problems as identified locally and the inadequate international cooperation globally while significantly rebuilding trust at all levels.

The present collection of essays was written by ten researchers at DIIS within their respective fields of specialisation as think pieces ahead of the elaboration of a new strategy for development cooperation. The essays highlight important issues that the researchers believe are worth considering during the elaboration of the new strategy. The essays do not cover all relevant issues to be addressed, nor do they necessarily take up the most important ones as there are many views on the nature of development and how it should be supported.

This introduction will briefly situate the essays in relation to current international debates on development cooperation. As a basis for this we undertook a non-systematic review of a collection of the most recent publications from six important institutions working on development cooperation, namely International Development Studies (Sussex), Overseas Development Institute, German Institute of Development and Sustainability, Brookings, Center for Global Development, and the World Bank. The review clearly did not cover all important international debates, but it provided a useful basis for situating the essays.

Accordingly, we have organised contemporary international discussions of development cooperation into five main categories, namely (i) the geopolitical context of development efforts, (ii) the financing of development activities, (iii) the establishment of global public goods, (iv) socio-economic development, and (v) aid management. There are other important issues, such as governance, democratisation and authoritarian tendencies, but rather surprisingly – and unfortunately – they do not come out as major issues in the rapid review of recent contributions to the debate.

## **Geopolitics**

Several papers on the geopolitical context of development cooperation centre partly around the US-China rivalry, and partly around the tense relationship between the Global South and the Global North. The former revives Cold War sentiments and creates concerns about a new ‘scramble for Africa’, but it also influences the role of multilateral institutions in addressing today’s development challenges, e.g., whether and how the World Bank can enlarge its portfolio to include financing of global public goods. The balance between an ‘international’ and a ‘global’ development paradigm is also affected by the latter relationship where many non-DAC donors tended towards an understanding of the COVID-19 pandemic as a global challenge while not necessarily holding the same view in relation to climate change and vice-versa for DAC donor countries. Moreover, the lack of trust between developing countries and Europe is highlighted as a factor significantly undermining the potential for development cooperation.

Rasmus Hundsbaek Pedersen situates the struggle for energy and energy security in these different geopolitical rivalries. He suggests that collaboration around energy provides a potential entry point for building partnerships that can be valuable in an intensified geopolitical competitive context. Working with other donors is important for a small donor like Denmark but there may also be room for some bilateral assistance. The lines of division are not fixed, and although China has provided significant sums for investments in energy, the US and the EU may be ready to accept that a larger part of critical minerals and clean energy technologies can be processed or produced in partner countries. If Denmark can support such partner country concerns with respect for domestic priorities in recipient countries and a broad energy sector perspective, there may be opportunities for partnerships in this geopolitically sensitive sector.



## Finance

The papers express (i) an urgent need to increase finance, (ii) a need for radical change, (iii) a focus on climate financing, and (iv) a concern with the MDBs. A notable contribution likely to frame other ideas in this field is a report from the World Bank on falling long-term growth prospects which argues that a broad decline in growth prospects and underlying drivers is likely throughout the 2020s unless the world and EMDEs (emerging markets and developing countries) decide to implement ‘ambitious, broad-based, and forceful policies at the national and global levels.’ (Kose and Ohnsorge 2024: 9) The call for strong policies is not new, but it is evident both here and in other contributions in this field.

The urgent need to increase finance gives the impetus for proposals to reform the MDBs, the IBRD, the IDA and the whole International Finance Architecture. Whether calls for MDBs to be ‘better, bolder and bigger’ and to adopt a triple agenda (‘(i) adopting a triple mandate of eliminating extreme poverty, boosting shared prosperity, and contributing to global public goods; (ii) tripling sustainable lending levels by 2030; and (iii) creating a third funding mechanism which would permit flexible and innovative arrangements for purposefully engaging with investors willing to support elements of the MDB agenda’)(Independent expert group 2023) should be described as radical reform is questionable, but the issue has garnered a lot of attention. Other papers address, *inter alia*, the (lack of) transparency of Development Finance Institutions, the high concentration of SDG-related private equity investments in Africa on a few countries, the inadequacy of the global tax deal aimed at curbing tax avoidance by multinational corporations in the eyes of low and middle-income countries, the insufficient and biased nature of climate financing, and the need to step up the financing architecture to respond to global shocks and protect economic development in low-income countries.

Abel Gwaindepi and Ole Therkildsen focus on Denmark’s strategic interests in supporting Domestic Revenue Mobilization in poorer countries to finance the SDGs. Generally, Denmark should step up its commitment to the Addis Tax Initiative of 2015 (which has been modest so far). Specifically, support: (a) reforms of (existing and new) basic sources of revenues that provide the bulk of government revenues; (b) the implementation of green taxes that benefit the recipients and contribute to a fairer green transition; and (c) LDCs in voicing tax-related concerns in the relevant international fora (such as reducing illicit financial outflows, establishing global standards for industrial policy incentives, and the international regulation of green taxation).

Private foundations are an increasingly important source of financing. Adam Moe Fejerskov accounts for the growing global ambitions of Danish private foundations and stakes out key concerns for engaging with foundations in efforts to tackle development challenges. While providing potential sources of funding, private foundations also cultivate isolated cultures and have moved towards proactive approaches that see them pursue high engagement and directive forms of grant-making, fostering challenges in the areas of cooperation and local ownership.

## **Global public goods**

Climate change financing, mitigation and adaptation are much debated issues. Different aspects of a 'big investment push' or a 'Marshall plan' for global sustainability are being considered to respond to the urgency of the needed action. Some papers take up this issue in the context of the debt crisis to find ways forward, and to identify the strengths and weaknesses of different instruments, such as the Just Energy Transition Partnerships (JETPs) and IMF's Resilience and Sustainability Trust. Another point repeatedly emphasised is the need to base climate initiatives on context-specific plans given that locally-led adaptation and mitigation efforts demonstrate superior efficiency. This relates to climate justice and its different dimensions. Besides, the significant consequences of climate change in fragile and conflict-affected situations have produced a call for new ways of integrating different instruments often operating in parallel to each other. Furthermore, climate change, the need for skilled labour and migration present both challenges and opportunities and moving from the former to the latter is a recurrent theme in the debate.

Mikkel Funder and Esbern Friis Hansen propose that Denmark's climate finance to adaptation in the Global South places a stronger and more concerted emphasis on governance issues. Specifically, they recommend placing the so-called Locally Led Adaptation principles center-stage in Denmark's support. Programmes implemented with these principles – some of which have been supported by Denmark - show promising results but now need scaling up in order to transition from the occasional pilot programme to forming the main approach in Denmark's climate finance to adaptation.

Another issue addressed in recent contributions is that of digitalisation which is seen as having potential for both contributing to and destabilising development. The digital divide needs to be addressed, and it is argued that the digital public infrastructure in reality determines whether the positive dimensions of digitalisation will materialise. While the digital infrastructure, skills training and capacity building are underlined, data governance frameworks and institutions are highlighted as well. Moreover, recent contributions analyse digitalisation in Africa from a geopolitical perspective, point to the scope for a green digital transformation, and highlight forcibly displaced youth as a particularly important group to be included in digitalisation efforts.

Marie Kolding and Adam Moe Fejerskov trace the focus of recent Danish development strategies on questions of tech, and explicate four areas of concern that the upcoming strategy must consider as it delves deeper and more concretely into how Denmark will work with emerging technologies in its development cooperation: digital inclusion; financial innovation; data-use by MFA-partners and the concerns for data-minimisation; and programmatic integration of tech concerns.

Cross-border security and transport infrastructures are other important elements featuring in discussions of global public goods. Finn Stepputat draws attention to the potential for political and violent conflict associated with the surging

investments in infrastructures such as ports and transnational corridors that channel global and transnational trade. Apart from being elements in geopolitical contestation at regional levels, such infrastructures can generate revenues for states and insurgencies alike which makes control over infrastructural hubs and chokepoints essential for state projects in areas of conflict and limited statehood.

### **Socio-economic development**

Investing in human capital and social protection are other elements being widely discussed, and it is emphasised that these must not be forgotten despite the contemporary focus on infrastructure. Global health financing is analysed with a view to identifying opportunities for more R&D to address leading causes of death and disability in low-income countries. Different tools to expand health services are explored, and the need for sexual and reproductive health and rights in protracted crises is examined. One contribution concentrates on the inadequate efforts undertaken to prepare for the next pandemic. Strengthened secondary education and education programmes for adults are other issues being addressed together with violence in schools. Food insecurity is the concern of many papers, some of which concentrate on equity issues while others analyse agricultural measures that may help. A notable conclusion is that domestic issues matter more than external factors for food security in many countries, and that support facilitating efforts by households and communities themselves is particularly useful. A number of papers address gender at both local and global levels. Regarding the latter, the integration of gender into IMF and MDB policies and programmes and the future of feminist foreign policy are discussed. Regarding the former, gender is analysed in relation to poverty, credit opportunities, education, and climate adaptation efforts. At the national level, tax and spending policies across countries are reviewed.

Lars Engberg-Pedersen takes up the issue of ending extreme poverty and relates it to current Danish ambitions of strengthening a rules-based world order and multilateral cooperation. He identifies different options for supporting the latter and refers to a recent proposal that suggests establishing a global fund to eliminate extreme poverty.

### **Aid management**

Here, a diverse set of issues have been addressed: Humanitarian leadership, working with civil society organisations, taking context seriously, adaptive management in refugee programming, and focusing health aid at the margin. More generally, essays on how to do things differently to achieve the SDGs by 2030 and to support multilateral cooperation in the 21<sup>st</sup> century have also been published. A comment on the recent UK white paper on international development concludes that development cooperation needs to focus on a more humble and consistent set of ambitions.

Ole Winckler Andersen and Rasmus Hundsbaek Pedersen give an introduction to recent research on aid fragmentation and show that Danish aid is still very

fragmented with potentially significant implications for aid effectiveness. The aid is provided to a large number of countries and with an extensive use of project assistance. In parallel, support is extended to many multilateral trust funds, which in several cases are uncoordinated and have overlapping mandates. The authors give examples from analyses and evaluations of climate support and end by presenting some dilemmas and challenges of aid fragmentation in Danish development assistance, including suggestions to use sector- or programme-specific approaches to avoid overlaps and imbalances, and to ensure coordination and a relevant division of labour with both bilateral and multilateral actors.

Adam Moe Fejerskov finally explores the need for portfolio management to increase development impacts in light of complexity and fragmentation. While donors increasingly recognise the need for systemic change, this view is juxtaposed by a reality of growing proliferation and fragmentation of development cooperation efforts, including through an expanding number of individual projects and commitments. While methodologies such as *Doing Development Differently* form a strong adaptive methodology for acting in situations characterised by high complexity, it mainly focuses on the 'how' and less so on the crucial 'for what' – the setting of higher-level strategic objectives. Fejerskov explores portfolio management as a way to organise activities more cogently around an overarching intent, allowing us to address issues more systemically.

# GEOPOLITICS, ENERGY, AND DEVELOPMENT COOPERATION

Rasmus Hundsbaek Pedersen

## Background

New geopolitical dynamics and intensified geopolitical competition became conspicuously clear not only with Russia's invasion of Ukraine but also with the split African vote in the UN about condemning it (Economist, 2022b). Tensions in the 'old' world order had however brewed for longer as signified in the increasing attention to the existence of 'a Global South' in the previous one-two decades (Dados and Connell, 2012). It is hard not to see the emergence of the notion of 'a Global South' as related to the coinciding rise of China, which challenged the dominance of what was perceived to be a hegemony of Western ideas and institutions (Gray and Gills, 2016). China has launched a number of initiatives and institutions over the last decades. Other major countries like Brazil and India, initially labelled emerging economies, have also increasingly demonstrated ambitions of talking on behalf of the 'Global South' (Lubin, 2023). From a developing country perspective, the emergence of alternatives allows for more strategic autonomy. This has implications for the prospects of forging Danish and Western partnerships with countries in 'the Global South'.

Energy is closely interwoven with these geopolitical dynamics. The availability of domestic energy resources within a country is at the core of classical geopolitical analysis as is the control of or influence on energy flows and trade between countries and regions (Criekemans, 2022). Major international events correlate with significant developments in the energy sphere. For instance, China's Belt and Road initiative has been associated with the country's quest for energy security through the construction of infrastructure in a situation where the country depended on imports through waterways beyond its control (Thompson, 2022, p. 264; see also Harper, 2019). Russia's invasion of Ukraine and the sabotage of the Nord Stream pipeline, which caused European quests for alternatives to Russian gas at home and in the USA and Africa, are also closely correlated. The competition over resources has indeed often involved military interventions and outright war. It has however increasingly come to encompass other forms of rivalry where not only China, but also Western actors have launched initiatives to reach out to countries in 'the Global South'. The notion of energy security increasingly includes renewable energy as the transition to cleaner forms of energy is fuelling competition over the control of intellectual property rights, advanced technologies, production capacity, and critical minerals in new ways (Criekemans, 2021, Newell, 2021).

## The advent of China in aid for energy sector development

Over the last couple of decades, China became the single-most important individual supplier of development finance for energy (KONG and GALLAGHER, 2020, Moses, 2023). South Asia and Southeast Asia have received

the most investments followed by Latin American countries (Li et al., 2020). An aspect of the attractiveness of China as a partner in energy sector development has been its agnostic stance on the choice of energy sources and of state ownership in partner countries. As western support increasingly became conditioned on the environmental and social sustainability of projects China became a significant supplier of finance and technology in large-scale hydropower along with coal and gas (Cabr   et al., 2018, Siciliano and Urban, 2017). The choice of these sources of energy were driven more by domestic decision-makers in recipient countries than by China (Hale et al., 2020). Except for oil and gas pipelines, which also embodied strategic Chinese considerations, the main interest of the involved Chinese actors was commercial (ibid). Only in 2021 did China abandon support for overseas coal projects. Since then, the share of new renewable energy like solar and wind has been growing rapidly in Chinese-supported projects, which also reflects the fact that China has come to see renewable energy technologies as strategically important to invest in (Times, 2021, Bloomberg, 2023a; see also Crikemans, 2018, p. 69).

That intensified geopolitical competition had implications for Western development assistance became conspicuously clear when in 2018 the US National Defense Strategy designated China a ‘strategic competitor’ and USAID the same year operationalised this by adopting a ‘Clear Choice Framework’ for collaboration in energy, digital and infrastructure with an emphasis on host country needs and policy choices (Munson, 2019, Dreher et al., 2022, p. 1). Already prior to China announcing its Belt and Road initiative in 2013, the USA had however launched strategies and interventions to counter China, including the Power Africa initiative the same year, which aimed ‘to provide market-driven solutions’ in partnership with US and foreign government partners and companies (USAID, 2017, Hannam, 2016, p. 99 and 105). Later followed infrastructure and connectivity initiatives like the US Build Back Better World in 2021 and the G7 Partnership for Global Infrastructure and Investment in 2022. The European Union’s Global Gateway launched in 2021 also aimed to provide an alternative to China with a strong focus on infrastructure finance but with a bigger emphasis on social and financial sustainability (Meredith and Chen, 2023).

The impact of these kinds of initiatives to a large degree depends on their fit with domestic dynamics and priorities in recipient countries. Whereas a transition to cleaner forms of energy is underway globally and the International Energy Agency (IEA) predicts that the demand for fossil fuels will peak this decade there will be interests related to the continued production of oil and, maybe more importantly, gas, in the decades to come (Birol, 2023). The speed with which the ‘transitioning away from fossil fuels’, which was agreed at the COP28 in Dubai, is achieved will differ from one country and region to another. Geopolitics play a role in this and not just due to the influence of oil producers like OPEC and Russia or the fragile relations between USA and China, both of which may spill over into climate change negotiations (Bordoff and O’Sullivan, 2024). Concerns over energy security have reemerged with new strength globally in recent years. Historically, energy security has been associated with the control over fossil fuels, first

particularly coal and later oil and gas, but it has also increasingly come to include electricity (Chester, 2010).

Whereas fossil fuel resources may be underway to be phased out globally they still provide important sources of energy supplies in many countries in 'the Global South'. Furthermore, many countries in 'the Global South' see energy security not only as a matter of security of supply but also as a means of improving access to modern energy and facilitating the growth of industrial capacity. Therefore, the price of energy matters as does the control over energy technologies. Support schemes like the Just Energy Transition Partnerships (JETP) with South Africa, Indonesia, Senegal, and Vietnam may provide funding from the G7 and associated institutions and countries like Denmark for the premium for switching away from fossil fuels in recipient countries. However, they rarely touch on the control over technology associated with mature renewable energy technologies like solar and wind, which tends to be dominated by global lead players in the EU, USA, and China. A better distribution of the value created from the production of these types of energy technologies has been identified as an important element in a just transition by more regional players (Think7, 2023, AU, 2023). It would indeed provide an incentive for transitioning in 'the Global South'.

The most recent expression of the intensified geopolitical competition is found in the American and European efforts to diversify the supply of minerals that are critical for the transition towards cleaner forms of energy. It is part of a broader pattern where trade is increasingly influenced by geopolitics (UNCTAD, 2023). The demand for critical minerals is expected to increase fourfold in 2040 (Bazilian and Brew, 2023). Supply chains however tend to be dominated by China. For instance, China overtook the USA and EU as the single biggest importer of minerals and metals from Africa in 2009 and it has become the dominant player globally in the processing of many of these resources for industrial use (Usman and Csanadi, 2023, p. 16). The EU, USA, and other actors have made lists of the minerals they consider critical for their transitions along with other initiatives. In 2022 the US passed its Inflation Reduction Act, which offers subsidies for domestic actors to invest in energy transition manufacturing. Somewhat similarly, the EU adopted its Critical Raw Materials Act in 2023 with the aim of increasing and diversifying supplies (Bazilian and Moores, 2023). This has raised questions about how and to whom these minerals are critical. A number of countries in 'the Global South' are seeking to move from being mere producers of raw materials to also capturing a larger part of their value in the processing and, potentially, manufacturing thereof. These dynamics have the potential to open avenues for new types of partnerships.

Both the EU and the USA have shown some interest in not only moving production home but also in friendshoring to countries more aligned with their interests, thus serving a dual purpose of diversifying supply chains and

contributing to building partnerships.<sup>1</sup> The USA has entered a memorandum of understanding with Zambia and Congo, both significant producers of critical minerals, about the development of productive capacity for batteries for electric vehicles. Both the EU and the USA have signalled support for the development of an infrastructure corridor from the two African countries for transport of minerals through Angola to the Atlantic Ocean (Bloomberg, 2023b)<sup>2</sup> just as the EU has entered a partnership with Namibia on raw materials value chains and infrastructure and has more underway (EC, 2023). Recent reports suggest that the EU and USA consider merging their efforts to engage suppliers of critical minerals in resource-rich countries (Bloomberg, 2024). Such developments may demonstrate a more pragmatic approach from Western actors to industrial policy in potential partner countries than hitherto but may also require more fundamental shifts in their willingness to reform the existing governance of trade. The EU's Carbon Border Adjustment Mechanism (CBAM) as well as subsidies under the USA's IRA have caused concern among lower income countries and emerging economies that their potential for more export-oriented production of low-carbon products and minerals may get undermined (Confidential, 2023, Oguntoye et al., 2023). Chinese companies have also demonstrated willingness to invest in, for instance, mineral processing and battery manufacturing abroad (Usman and Csanadi, 2023, p. 16).

### **Strategic challenges and implications for Danish development assistance**

Changes in the interrelationship between energy and geopolitical dynamics provide both new challenges and new opportunities for countries in 'the Global South' as well as for Denmark and Western actors. Support for energy provides a potential entry point for building partnerships that can be valuable in an intensified geopolitical competitive context. Building partnerships requires taking recipient countries' priorities seriously. Over the last couple of decades, China has become more important globally not only due to the provision of finance and technology but also due to its flexibility with regard to sources of energy and types of ownership. How China's current struggles with bad debt from the Belt and Road initiative as well as a domestic economic crisis affect its power in the energy sphere relative to other major players is unclear. The EU is challenged by having limited fossil fuels domestically but possesses some strengths in having

<sup>1</sup> For instance, mobilising climate investments is one of the EU Global Gateway's priorities with energy projects not only supporting partner countries' transition but also potentially contributing to the EU's own energy and supply chain security.

<sup>2</sup> Concurrently, China is negotiating with Zambia and Tanzania about the rehabilitation and possibly operation of the TAZARA railway, which will allow for improved transport of minerals from Zambian mines to the port of Dar es Salaam at Indian Ocean: SCMP, S. C. M. P. (2023). "China on track to control African Tazara railway despite geopolitical needling over control of mineral trade routes." SCMP, South China Morning Post 12 November 2023. Accessed 15 November 2023 on <https://www.scmp.com/news/china/diplomacy/article/3241095/china-track-control-african-tazara-railway-despite-geopolitical-needling-over-control-mineral-trade>. See also: Zajontz, T. (2023). *The Political Economy of China's Infrastructure Development in Africa: Capital, State Agency, Debt*, Palgrave Macmillan.



reached relatively far in its energy transition, facilitated regional power trade, and having some strongholds in renewable energy, in which Denmark plays a significant part (Criekemans, 2018). Shale gas has made USA an energy exporter and with the Inflation Reduction Act (IRA) it challenges Chinese and European strongholds in renewable energy technologies.

Countries in 'the Global South' have concerns about geopolitics and energy and supply chain security too. There will be significant differences among countries where some risk losing out due to the global energy transition and others will gain opportunities. A potential entry-point for building partnerships not only around a transition towards cleaner forms of energy but also in geostrategic terms, is the long-held wish to shift a bigger part of the value from supply chains and extractive minerals. It is worth noting that it is not only Western actors who have an interest in diversifying supplies and supply chains; buyers of energy equipment and producers of critical minerals in 'the Global South' may also be interested in reducing their reliance on China. It has indeed been noticed that their trade with China often mirrors traditional north-south trade in terms of the import of commodities and export of manufactured goods (Cabestan and Chaponnière, 2016, p. 48). The EU and the USA already to a large extent rely on imports of not only a number of critical minerals but also manufactured products like solar PV, batteries and electrical vehicles. They may therefore have more room to accommodate partner countries' wish to capture a bigger part of the value from supply chains than China, whose support for infrastructure projects abroad to a large extent has been driven by the export of surplus capacity in the economy and production spheres (Zajontz, 2023).

The following strategic dilemmas could be taken into consideration:

- Working along domestic priorities in recipient countries when it comes to types of energy and ownership can contribute to forging partnerships but may not always be fully in line with Danish climate change priorities. Clean energy technologies can however be promoted even if countries maintain fossil fuels as part of their energy mixes.
- Assistance should support energy sectors broadly (see contribution on aid fragmentation) but this may be challenging for a small donor like Denmark. It is therefore important to pool resources with other donors to ensure scale. The fora providing the most influence and impact will differ from one context to another. Working through multilateral institutions, the EU, clubs of likeminded, or simply with countries with shared interests, may provide more influence, there can also be room for bilateral assistance.
- Be open to support for industrial policies and projects that allow countries in 'the Global South' to capture a bigger share of the value from minerals and clean energy technologies while avoiding white elephants. Working with and through the EU, which has a bigger say in such matters, is important.

- The EU's Global Gateway strategy's emphasis on social and financial sustainable infrastructure is promising and the EU should therefore avoid undermining its potential for forging partnerships through unilateral measures, for instance in trade and taxation.
- The commercial potential may be bigger in large, emerging economies, but the need for support may be relatively higher in lower-income countries. Some countries will be more likely to lose out than others from the global transition to cleaner forms of energy. The differences between oil and non-oil producers have received much attention but the potential for benefitting from the increasing demand for critical minerals or from outsourcing of production also differs widely.

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# **INCREASING DOMESTIC REVENUE MOBILIZATION: DANISH SUPPORT TO BOTH ‘CONVENTIONAL’ AND ‘GREEN’ TAXES IS IMPORTANT**

Abel Gwaindepi and Ole Therkildsen

Domestic Revenue Mobilization (DRM) is not central in the present ‘Strategy for Development Cooperation’. Denmark spends much less on support to DRM than like-minded countries despite its commitment to the Addis Tax Initiative since 2015 (OECD, 2024). Yet, Denmark’s strategic interest in future support to DRM in LDCs built on equal partnership is more compelling today than it was in 2015 because:

- DRM is essential for ensuring the sustainability of activities supported by Danish aid. That sustainability is threatened in many debt-distressed countries now spending more revenues on debt servicing than on education, health, infrastructure and other important areas (UN, 2023). Public investments in green transition are also squeezed despite massive needs (The Independent High-Level Expert Group on Climate Finance, 2022).
- Denmark and other rich countries increasingly influence tax policies in LDCs – often without much consultation – as is the case for some green taxes. Such tax impositions can be harmful for the country involved and put partnership at risk.
- State building and democratisation are important areas for Danish support. These can be strengthened in a fairer DRM with improved accountability between citizens and the state (Kjaer, Ulriksen, & Bak, 2023).
- In the Global South demand is growing for a more just international taxation and a fairer international financial architecture (e.g. African Union, 2023; UNCTAD, 2023). Danish support to further these worthwhile ambitions will strengthen relations with partners.

Despite increased tax revenues in LDCs from 10 to 14 per cent of GDP from 1990 to 2010, they have stagnated since then following the 2008 global financial crisis and the COVID pandemic according to the IMF (Benitez, Mansour, Pecho, & Vellutin, 2023, 5) (European Commission, 2023, 195).

The prospects for increased DRM in many partner countries are therefore challenging: The near-term growth projections for the global economy, including that of many LDC and fragile countries, are the weakest they have been for 30 years. Many also face increasing debt burdens exacerbated by higher interest rates and currency devaluations (World Bank, 2024). Geopolitical tensions and wars already affect international trade and food security negatively across the globe – and aid to LDCs is falling (OECD, 2023).



Nevertheless, not all is gloomy, as shown below.

### **Support to 'conventional' revenue generation**

What constitutes improved 'conventional' revenue generation is, of course, country-specific, but its typical elements are: capacity building including better tax agency accountability, expanding the tax base, making taxation more progressive to capture income and wealth at the top, recalibrating tax breaks, reviewing tax incentives of extractive sectors, dealing with tax havens, reducing illicit international financial flows, and tackling Base Erosion and Profit Shifting (BEPS). Moreover, fighting corruption in taxation at both national and international levels can strengthen DRM.

The good news is that revenues from both 'conventional' and green taxes have increased in the past ten years in several LDCs, but there is potential for improvements according to the IMF, the World Bank and the International Centre for Tax and Development (Bogetić, Naeher, & Narayanan, 2021; IMF, 2019; McNabb, Danquah, & Tagem, 2021). Given differences in economic structures most LDCs make efforts to increase revenues on par with those of richer countries (McNabb et al., 2021).

Denmark already provides limited bilateral support and multilateral support to improve 'conventional' revenue generation (one example is the Ministry of Foreign Affairs (2023)). The strategic interest in increasing such support is that in the foreseeable future 'conventional' DRM will remain much more important for LDCs than green taxes for the financing of own development priorities and reduction of aid dependence. Moreover, partner 'conventional' tax systems development and reforms can be conducive to domestic job generation, (international) trade and (foreign) investments.

The main challenges for improvements typically relate to political economy issues, lack of organisational capacity, and structural features of LDC economies (e.g. high prevalence of informality and export dependence). The technical knowledge on how to improve 'conventional' DRM is substantial, although many gender issues are still poorly understood (Joshi, Kangave, & van den Boogaard, 2020).

### **Support to 'green' taxes**

Climate conscious taxation issues – 'green taxes' – are also of strategic interest to Denmark given its ambition to promote green transition globally. Support to LDCs on how to deal with such taxes is, however, rather new. To illustrate the importance and challenges involved, three such taxes are dealt with below from an LDC/partnership perspective.

### **Implications of EU's Carbon Border Adjustment Mechanism (CBAM)**

The CBAM aims to reduce greenhouse gas emissions and to position the EU as a global leader on climate action (The African Climate Foundation & Firoz Lalji Institute for Africa, 2023). Initially it applies to cement, iron and steel, aluminium,

fertilisers, electricity, and hydrogen. Other products will be included later. It is the world's first of its kind (Keen, 2023, 106). Country level preparations began in 2023 so that the CBAM can start in 2026.

The tax is imposed on exports of these commodities to the EU. It amounts to the difference between the price of carbon inside the EU and that in the country exporting to the EU. An exporting country must therefore decide whether carbon tax revenues go to the EU or – by imposing the same domestic carbon tax as the EU – to the country's own government (World Bank, 2023, 31). In any case, CBAM will reduce exports unless domestic producers can offset its cost through higher (emission) efficiency and still remain market competitive.

CBAM may therefore slow down industrialisation and job creation in the specified products. Their exports can be part of a country's development strategies (Cramer, Sender, & Oqubay, 2020, 104). It may cost the African continent some USD 25 billion per year in lost GDP – but with major variation across countries. This is equivalent to three times the EU's development cooperation budget committed to Africa in 2021 (Luke, 2023).

The EU did consider a CBAM exemption for LDCs and vulnerable economies, but eventually abandoned the idea. The European Parliament then called for the EU to 'provide financial support, at least equivalent in financial value to the revenues generated by the sale of CBAM certificates' to assist LDCs in decarbonising their manufacturing industries. However, specific commitments to LDCs affected by the CBAM are yet to be made (The African Climate Foundation & Firoz Lalji Institute for Africa, 2023).

If the ambitions of Denmark (and the EU) on global green transition and leadership are to succeed, it is crucial to engage in a constructive dialogue on the CBAM with key (LDC) stakeholders. Partner country concerns about the negative impacts on their economies must be dealt with. LDCs should also 'take the lead in formulating measures to protect their interests and ensure their economic development is not hampered by the CBAM' (Ibid).

### **Implications of carbon taxes**

Carbon taxes make the 'polluter pay' by taxing carbon-intensive products and lifestyles. They aim both to change behaviour (reduce emissions) and to generate revenue with the former being the primary argument for carbon taxes in LDCs (Keen, 2023, 113).

It is richer countries that push carbon taxes, but their application can be problematic in LDC contexts as the imposition of CBAM illustrates (Occhiali and Lawrie (2021). For this reason, the recent Africa Climate Summit Declaration (African Union, 2023) favours global carbon taxes – augmented by a financial transaction tax – but without explicit commitment to introduce them domestically.

Emissions trading systems and carbon taxes are presently mostly limited to middle-income and high-income countries (World Bank, 2023, 29 & Figure 9). Only South Africa on the African continent has a carbon tax (ATAF, 2023). An

important reason for this is that the application of carbon taxes in LDC contexts involves important trade-offs between development and climate change.

On the one hand, increased energy use (including the accompanying greenhouse gas emissions) is needed to bring about economic growth and development: No low-energy rich country exists, nor a high CO<sub>2</sub>-emitting poor country (Therkildsen, 2023).

On the other hand, each ton of carbon emitted contributes to climate change whether the source is a poor or a rich country. Higher energy-use in poor countries will produce higher emissions as long as renewable energy costs more than energy provided by fossil fuel as is the case for most LDCs in the foreseeable future (Kincer & Moss, 2022).

However, from the perspective of just transition, poor countries have contributed much less to climate change than richer industrialised countries have. Richer countries should therefore contribute significantly to poor countries' green transition. Promises of that have not been kept so far.

In any case the potential revenues generated from the application of carbon taxes in most LDCs will be low for many years to come. That is why 'better use of conventional sources of revenues' is so important as argued above.

Nevertheless, carbon taxes will be introduced in some of Denmark's partner countries in the foreseeable future. The need for technical assistance in LDCs to implement them will therefore grow. Importantly, rich countries - the EU (and Denmark) - should not impose carbon taxes on poor LDCs without proper consultation and mutual agreement on compensation, especially if such taxes compromise living standards. This may change as countries (hopefully) grow richer, and the full implications of the carbon tax in poorer countries are better known.

### **Implications of climate-related tax subsidies and tax expenditures for DRM**

Carbon taxes punish the polluters, while fossil fuel subsidies incentivize pollution that kills humans and the planet. Globally, subsidies drained public revenues of \$7 trillion in 2022 or 7.1 per cent of global GDP (IMF, 2023).

Removing fossil fuel subsidies will have positive climate and air pollution effects. The latter is a significant health problem in LDCs, causing several millions of premature deaths, primarily among women and children (Our World in Data, 2022; World Health Organization, 2022).

In poorer (African) countries, the potential medium term revenue gains from removing fossil fuel subsidies vary substantially from fairly modest to some 10 per cent of total revenues (Keen, 2023, Figure 3.1). However, removing such subsidies is politically very difficult and has triggered crippling protests in Nigeria and Angola, major oil-producing African countries (George, 2023). The EU faces similar problems as the current farmer protests show.

Nevertheless, the strategic principle should be to first reduce/remove the most harmful subsidies and keep those that are beneficial. The clear candidates for the latter are kerosene and LPG used for cleaner cooking. If these were subsidised sufficiently, households would switch away from various cheaper biofuels (wood, charcoal, etc) thereby reducing air pollution and forest cutting significantly.

This would also create a net-gain for the environment: Clean cooking for all by 2030 results in a net reduction of greenhouse gas emissions by 2030, similar to the amount of CO<sub>2</sub> emitted by planes and ships in 2022 according to the International Energy Agency (2023, 15).

Such benefits come at a small total cost: some USD 50 billion/year. It is a tiny fraction of the total cost of fossil fuel subsidies according to the IEA (Ibid, 62). Reducing the subsidies for other fossils could provide the finances to achieve these benefits. Danish support for clean cooking and establishing the needed infrastructure could contribute to this important green transition and is consistent with the focus on health, gender, and poverty.

In short: Denmark should offer technical assistance to countries to help them get rid of fossil fuel subsidies that hurt livelihood and environment, and support the provision of fossil fuel subsidies where the positive gains are substantial. One size does not fit all.

### **Possible important strategic initiatives by Denmark**

Upcoming and future DRM reforms pose both threats and opportunities for poor countries as they involve global and country-level political trade-offs between climate action and revenues for equitable, sustainable development and poverty eradication (The African Climate Foundation & Firoz Lalji Institute for Africa, 2023).

Taking equal partnership and just green transition seriously, Denmark could take three important strategic steps:

- (1) Fulfil and implement commitments to the Addis Tax Initiative. This implies much more support to LDCs through both bilateral and multilateral channels on revenue issues in demand by partner countries (some of which are outlined above). If Denmark is not willing to do that it should step out of its ATI commitment.
- (2) Focus DRM support to taxation issues on which Denmark has – or wants - a comparative advantage, and which fit its strategic interests. Assistance to capacity development in green taxation may qualify depending on the contexts in partner countries. Some of the support should be given as bilateral aid as this helps Denmark to develop the expertise needed to influence its aid on green taxes and conventional taxes channelled through multilateral agencies.
- (3) Support LDC attempts to gain a stronger voice in the relevant international fora where key decisions on DRM are made (such as reducing illicit financial outflows from LDCs, establishing global standards for industrial policy incentives,

and the regulation of green taxation). This is in keeping with Denmark's global profile, characterised by investing significant resources in influencing multilateral institutions and international debates on key developmental issues (OECD, 2021, p. 8).

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## ENGAGING PRIVATE FOUNDATIONS

Adam Moe Fejerskov

Strikingly, Denmark has more private foundations per citizen than any other country in the world. The vast majority of these are small and distribute less than a million DKK annually, but Denmark also has a historical preference for commercial foundations acting as de facto owner of some of the country's largest companies. While the number of smaller foundations has decreased over the past decade, the number of foundations at the 'top' has grown markedly and ten-year projections estimate that we might see a Danish foundation among top-ten or even top-five global foundations depending on the growth trajectory of its parent company. Danish foundations distributed some DKK 30 billion in 2022, with the vast majority of grant disbursements made by the 200 largest foundations. Danish foundation giving has historically focused on support for the natural sciences and the art world, yet interestingly for Danish development efforts, the two highest disbursing Danish foundations (Lego and Novo Nordisk) are also among those showing greatest interest in global issues.

Recent changes to private foundation practices have seen many pursue efforts across notions of strategic philanthropy, creative philanthropy, venture philanthropy, social (impact) investment and the like. These terms mostly allude to the deployment of diverse sets of financing tools, such as social impact bonds, equity, debt, loans, but also non-financial forms of support through networking and mentoring. Collectively framed by some as philanthrocapitalism (see Bishop & Green, 2010), current foundation modes of working favour the adoption of business techniques in foundation processes, aiming to shift philanthropy more towards strategic social impact investment. The new foundations often advance a hybrid set of logics that blend scientific progress through experimentation with a belief in businesses and the market as intrinsically efficient, refocusing efforts towards corporate and private influence on, and delivery of, societal progress (Fejerskov, 2018; Desai & Kharas, 2008). In this realm of thought, quantification and systematic decision-making, often perceived as apolitical or value-neutral, form the basis for purposive action, driven by scientific rationality in designing and executing interventions. There are several concerns to keep in mind when engaging private foundations in the context of global development, as explicated below.

### Understanding the operational modes of private foundations

At least three major processes of change have characterised private foundations since the turn of the millennium, including many Danish foundations (Fejerskov, A. & Rasmussen, C. 2016). The first is an adoption of proactive and strategic approaches that sees foundations pursue high engagement and directive forms of grant-making, driven by an emphasis on direct involvement, efficiency, and effectiveness, oftentimes serving a purpose of increasing control over the manner and uses of funding. Being more 'strategic' in this sense implies a top-down approach to grant-making. The second concerns intra-organisational capacity building, seeing foundations vastly



grow in size and in-house specific issue-based expertise, from agriculture to microfinance to water management, as opposed to having generalist programme managers that mainly are able to monitor accounts. The third process of change is the increasing focus on global grant-making we have seen over the past years, pushing many foundations to connect their original foundation missions to international concerns, such as when a focus on a specific disease is extended to health more broadly (see OECD, 2023). Education and health have remained steady priorities over more than a century, but foundations today pursue political and policy influence to an extent where some of them could be considered as being on par with nation states with respect to their engagement in international organisations such as the WHO (where the Gates Foundation remains the second-largest donor among all members).

### **Private foundation myths and causes for concern**

Private aid has been framed by some as contrasting with top-down and centrally planned public aid programmes, able to deliver effective results by seeking out ‘opportunistic innovations’ and being more risk-willing. In reality, the vast majority of foundations are not particularly risk-willing and most prefer traditional results-chains, logframes, and KPIs, just as most have a geographical preference for working in middle-income countries rather than fragile LDCs. Foundations have an extremely limited accountability towards a tax-paying public (in turn providing their financial independence), leading some to consider them the least accountable major institutions in Western societies today (see Edwards, 2009; Fleishman, 2009). They face limited pressure from accountability-influencing forces of government and the accumulation of wealth and private giving in the hands of a few organisations or institutions continues to reproduce or exacerbate existing power imbalances (MgGoey, 2015). Similarly, the marketisation of philanthropy as philanthrocapitalism or even Africapitalism as some have recently referred to it within development, situates private foundations in a context of models of financial accumulation and extraction (Moran & Stone, 2016). We know that some forms of strategic gifting exacerbate inequalities by utilising and cementing uneven relationships of power, and institutional philanthropy is often seen as disempowering on par with less-ideal forms of development assistance. The managerialist or business approaches of the new foundations imply much more paternalistic relations in which grantees are disempowered by foundation-centred problem-solving models or self-interests. Short-term projects and quick fixes driven by the zeal of the trustees will often be favoured over long-term impact and are not far removed from the traditional problems associated with some types of development efforts.

### **Engaging Danish private foundations**

Private foundations have historically functioned within an insulated culture that accepts and perhaps even encourages inappropriate levels of confidentiality and independence. Today, this continues to fuel a sensation among private foundations that they can and must work outside established structures that appear too ‘bureaucratic’ or ‘political’ to their taste (Fejerskov, 2018). As such, their interest in partnerships and close engagement with other development actors cannot be taken as a given. Quite the opposite in fact, the MFA needs to work from an assumption that Danish private foundations may not be interested in engaging with them and continuously confront them head-on with their responsibility to partake in cooperation schemes. The evidence for why this remains important is clear-cut: it is well-documented that isolated foundation-efforts

are vastly less impactful than those executed in not just coordination but cooperation with partners. Fostering collaboration requires a multi-pronged approach from the MFA. State Secretaries for Development and Foreign Policy from the ministry need to continuously engage with senior management in relevant foundations to stress the importance of collaboration, preparing the ground for issue-based cooperation that can take place at HQ levels in Denmark, as well as in-country programmatic collaboration.

### **Working with foundations beyond Denmark**

Both historical and current developments must lead us to appreciate the importance, but also the diversity, of foundations engaged in global development. While Danish private foundations should be an obvious point of emphasis for the MFA, we are seeing massive growth in the number of private foundations around the Global South, foundations that can be engaged locally and nationally in funding, programming, and implementation efforts. These include smaller foundations, but we are also witnessing the emergence of large African private foundations such as Trust Africa, Africa Women's Development Fund, the Mo Ibrahim Foundation, TY Danjuma Foundation, Abdul Samad Rabi'u Initiative, Tony Elumelu Foundation, Motsepe Family Foundation, Mo Dewji Foundation, and the Aliko Dangote Foundation.

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## LOCALLY LED ADAPTATION

Mikkel Funder og Esbern Friis-Hansen

Climate change is undermining global development achievements (Jafino et al., 2020; WMO, 2023). Adapting to climate change is therefore key to ensuring the resilience of economies and livelihoods and critical to achieving the SDGs in the Global South. Danish development policy increasingly reflects this. However, simply allocating funds is not enough. They must be brought into action on the ground and must result in quality outcomes that benefit vulnerable populations.

This requires a stronger and more concerted emphasis on the governance aspects of climate change adaptation in Denmark's climate finance to the Global South, with a particular emphasis on ensuring that adaptation is devolved and locally led. This is in line with the latest Evaluation of Denmark's climate change assistance, which found that subnational governance was a major factor for success (Danida, 2020). There is a need now to shift from supporting occasional community-based adaptation programmes as part of the wider adaptation portfolio towards scaling up locally led adaptation governance and placing it center-stage as the main approach for Danish support to climate change adaptation in the Global South.

The good news is that there is a clear pathway for doing so. Denmark's Ministry of Foreign Affairs has endorsed the 'Locally Led Adaptation' (LLA) Principles, originally developed by the Global Commission on Adaptation and endorsed by more than 120 organisations globally. The principles aim to address equity, justice and efficiency concerns in adaptation by anchoring decision-making and allocation of funds in subnational local governments and other local institutions. This creates the critical local ownership needed for success, mobilises citizens, and creates more efficient adaptation because climate impacts and appropriate responses are highly localised in nature.

### **The Locally Led Adaptation Principles**

1. Devolving decision making to the lowest appropriate level
2. Addressing structural inequalities faced by women, youth, children, disabled and displaced people, Indigenous Peoples and marginalised ethnic groups
3. Providing patient and predictable funding that can be accessed more easily
4. Investing in local capabilities to leave an institutional legacy (institutional frameworks and capacity)
5. Building a robust understanding of climate risk and uncertainty
6. Flexible programming and learning
7. Ensuring transparency and accountability
8. Collaborative action and investment

Efforts to support devolved finance and governance of climate change adaptation have been ongoing for a while through a variety of modalities and multilateral and bilateral donors. These were however designed prior to the elaboration of the LLA principles, or only addressed them piecemeal (Friis-Hansen et al., 2022).

More recently the LLA principles have gained traction, and efforts to operationalise them have picked up pace. This includes the development of guidelines for supporting and financing LLA approaches (Steinbach et al., 2022; USAID, 2024). Experiences from the ground have also started to emerge (DCFA, 2019; GCA, 2022).

A recent DIIS study systematically examined on-the ground outcomes of LLA approaches in six water projects in Kenya and Tanzania, including the multi-country LoCAL programme which receives Danish support (Bedelian et al., 2024a, 2024b). The study generally found positive outcomes, indicating that the approach has real potential to deliver on its promises. The study also found that LLA provides good opportunities to employ community-driven Nature-based Solutions (NbS), thereby linking adaptation to another key issue, namely ecosystem- and biodiversity conservation (Bedelian et al., 2024a; Gravesen & Funder, 2021).

These developments are promising because they suggest that Denmark's support to governance issues in climate change adaptation do not need to reinvent the wheel: Approaches exist, and the results are good. What is required now, however, is a concerted effort to scale up LLA approaches to make them the dominant approach for delivering and governing climate finance, including associated efforts to institutionalise and mainstream LLA nationally.

### **Support to LLA lowers transaction costs**

High transaction costs are sometimes seen as a drawback of subnational climate financing. However, this is a result of the modality and its design rather than LLA itself. High transaction costs typically arise where too many restrictive or bureaucratic measures have been imposed. For example, devolved World Bank climate financing under the PPCR programme in Zambia requires central level approval of every locally planned adaptation project, which increases transaction costs for everyone (Friis-Hansen et al., 2022). Donor restrictions on climate funds, such as overly detailed earmarking, can also increase transaction costs for local governments, who cannot plan holistically, resulting in stand-alone projects (Bedelian et al., 2024a).

A truly devolved and more flexible approach is therefore needed to lower transaction costs both for donors and – importantly – for recipients. This can include multi-donor trust funds from which regular disbursements can be made to subnational entities, such as in the CCCF mechanism in Kenya (Bedelian et al., 2024a; Tidemand et al., 2022). This will also help overcome the current structural barriers for subnational actors who wish to access the global climate funds: In several of these funds, rigid accreditation requirements favour central government agencies and international development actors, who therefore get to manage devolved adaptation financing, thereby themselves adding to transaction costs.

Localisation of the decision-making and finance of adaptation to the subnational level has been shown to have the potential to increase the relevance of adaptive action for poor and vulnerable

people. The LLA principles are designed to realise this potential, including devolution of decision-making and finance to the sub-national level and mechanisms to ensure inclusive governance.

In the case of ALP (Kenya, Ghana, Niger, Mozambique), it was found that the empowerment was even more important for enhancing the climate resilience than the introduction of improved farming practices, as it enabled communities to analyse weather information and its implications, identify appropriate response strategies at the household level, and proactively engage in dialogue with local authorities on communities' needs and priorities. The critical role of empowerment was also documented by RECSC-PANA (Burkina Faso) (Danida, 2020, Evaluation of Danish Support for Climate Change Adaptation in Developing Countries, p. 55).

The World Bank financed FLLOCA project in Kenya is the first national programme that is based on principles of LLA. The bulk of its finance is used to capitalise the County Climate Change Funds, which transfer funds to the County level using a performance-based grant system. A smaller share of the FLLOCA budget will finance capacities and systems at the subnational level for understanding, planning, and administering climate investments. Successful inclusive governance is notoriously difficult to achieve. The FLLOCA programme seeks to include poor and vulnerable people through support from the Kenyan Government for the establishment of local adaptation planning committees at County and Ward levels, which conduct climate risk assessments and engage communities in identifying and prioritising resilience-building investments.

Emerging experiences from FLLOCA and other programmes based on LLA principles show that devolution of decision-making and finance to the sub-national level enhances the quality of adaptation action. The absence of an effective model for supporting climate adaptation at a national scale has in the past split support into many small projects. With the combination of performance-based grants and LLA, we now have a cost-effective model for providing relevant support for poor and vulnerable peoples' adaptation to climate hazards. MFA should invest and use its influence to provide the enabling policy frameworks required to move the LLA agenda forward.

One way of achieving this is for MFA to engage in more active dialogue with the multi-lateral institutions that Denmark supports with the aim to support the LLA agenda, including replenishing of WBG and support for GCF. This can also be done by MFA (re)engaging in support for overall devolution processes and, in coordination with other donor agencies at national level, engage in policy dialogue with host governments prioritise climate adaptation and ensure continuous flow of finance earmarked for adaptation to sub-national local government level, e.g. devolve decision-making and finance for adaptation from central ministries to local government.

Experience from the GAP research programme in Tanzanian indicate that central and local politicians may be unsupportive of adaptation, as it is viewed as a lose-lose issue. Many countries have devolution reforms but have not implemented it in practice for political economic reasons. In countries, such as Tanzania, that insist on highly centralised approach to development, including climate adaptation, alternative approaches may be needed, e.g. working directly with local

governments and providing them with pooled funds, and providing support for Danish CSOs and their Southern partners' engagement in LLA.

## **Recommendations**

- LLA should be the main Danida approach to climate adaptation.
- There is an immediate need to scale up LLA in the countries supported. This includes institutionalisation of supportive governance frameworks (including decentralisation) and mainstreaming LLA.
- Engage in active multilateralism in support of the LLA agenda in WBG, GCF, ADB and AF.
- In countries where governance is highly autocratic or dysfunctional/in conflict, MFA can work through Danish CSOs and their Southern partners. CSO-implemented devolved adaptation was found to be among the best performers in the 2020 Evaluation of Danida support.
- Linking LLA and Nature-based solutions is an obvious opportunity and should be pursued.

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## TECHNOLOGY, DIGITALISATION, AND DATA-USE

Marie Kolling & Adam Moe Fejerskov

Emerging technologies play a growing role in Danish efforts aimed at fostering development. While technology transfer (to promote economic growth) has been part of Danish development cooperation repertoires since the 1950s, the utilisation of digital and information technologies has grown noticeably over the past years. This has also been the case in recent strategic work. The 2012 Danish development strategy (*En verden i udvikling*) embraced a positive outlook for the role of technology in enabling green growth, democracy, and human rights, all three of which are central themes for the strategy. The 2017 strategy (*Verden 2030*) scaled back the focus on technology (which is in itself interesting because the position of Tech ambassador was created at this time) and reduced it to an instrument for enabling growth through innovation and entrepreneurship, including *disruption*. Finally, the current strategy (*Fælles om en bedre verden*) reverts to themes similar to those contained in the 2012 strategy but radically alters its tone to single out emerging technology's potential in bolstering autocracies and antidemocratic forces. While some attention is given to renewable energy technologies and Danish strengths herein, the multiple crises faced at the time of preparing the strategy entail a much gloomier outlook for the impact of emerging technologies. Below, we explicate four areas of concern that the upcoming Danish development strategy must consider as it delves deeper and more concretely into how Denmark will work with emerging technologies in its development cooperation.

### Digital inclusion vs. adverse inclusion

Digital infrastructure and skills are key to contemporary development, and through its development cooperation Denmark can further support the digital transition that is transforming people's lives, work, and entire economies. Digitalisation facilitates access to education and health services, changes business practices also for subsistence entrepreneurs and rural producers, provides access to information and networks and to electricity from renewable energy. Digitalisation also holds the potential to improve taxation efficiency in developing countries and facilitate revenue generation for public services while alleviating administrative burdens on taxpayers (OECD 2021). However, global disparities in internet connectivity and skills risk reinforcing existing inequalities including disparities based on gender, income, age, rural vs. urban (Heeks, 2022; Bhorat et al., 2023; Robinson et al., 2020). Digitalisation is also generating new inequalities among the included e.g. regarding new modes of labour in the digital economy (Ustek-Spilda et al 2020; Graham et al. 2017). Interventions need to address the digital divides across and within countries.

At the same time, growing digital inclusion and connectivity not only provide new opportunities but also new exposures to exploitation. With online crime on the rise across the globe, people are exposed to fraud and scams when looking for work and educational opportunities (including through migration), and when engaging in online consumption and financial transactions (Albader, 2023; Hasham et al., 2019; Cheesman, M. & Hackl, A. 2023; Chonka, 2023). Hence, digital inclusion necessitates the provision of protection mechanisms and regulation. Moreover,

exploitation in the digital domain is not only done by criminals. It also occurs in more subtle ways as a result of the actions of companies behind online platforms, services and content, as access is conditioned upon the agreement to have personal data stored and processed, and that data is then used for a range of commercial purposes. This makes data an inexhaustible resource for profit (Meijas and Couldry 2024; Zuboff 2019; Jung 2023). Data analytics conditions people's future use in non-transparent ways and influences user behaviour. This calls for programming efforts beyond technological solutions to digital inclusion that address measures to mitigate exploitation and support data and consumer protection in practice.

### **Financial innovation and inclusion**

Digitalisation continues to drive innovation in financial services and infrastructures, enabling access for low-income populations previously excluded from financial and banking services in the formal sector. The innovation in the use of mobile phones for instant payments and money transfers at low cost has changed income-generating opportunities for both rural and urban populations and aided more effective disaster relief (AFI, 2021; Beck 2020; Senou & Houensou, 2023; Makina 2017). Innovation in the financial sector has diversified financial products and services; it is often driven by fintechs, bigtech companies, retailers and network operators who have become important stakeholders for financial innovation and inclusion. Financial inclusion is often celebrated as a tool for poverty reduction in developing and emerging economies. However, research shows that financial products targeting the poor, such as commercial micro-credit schemes, consumer credit (used for daily living, life projects and micro-entrepreneurship), and new insurance products, may merely be changing the conditions of poverty by offering privatised and financialised social assistance and in turn: new expenses, new rules of compliance and new and greater problems of household indebtedness (Bateman et al., 2019; Schuster, 2015; 2021; Kar, 2018; Bernards, 2022; Kolling, 2020; 2021). Insertion into a market that is inclusive of all as long as the conditions for the servicer are right does not level the playing field. Such market development, profiting on poverty, requires attention to redistributive policies in country programming to ensure that credit and insurance for the poor do not come to replace welfare programmes and social assistance.

### **Data-use by MFA partners and the need for principles of protection and minimisation**

Collection of data from people (citizens or stakeholders, for better terms than beneficiaries or recipients) engaged through development programmes has greatly increased over the past decade. The UNHCR alone now has repositories containing sensitive data on more than 13 million refugees, migrants, and displaced people. The data includes biometric (iris scans, physiological traits) and biographical information (family, origin, but also e.g. reason for displacement), often in combinations that multiply sensitivities. While having the potential to ease bureaucratic needs for systematising e.g. delivery of humanitarian aid, there is growing evidence for the potential harm caused through this immense data collection, storing, and use (Meijas & Couldry, 2024; Fejerskov, 2022). And not just in the event of unforeseen complications, but often through established partnership agreements (Bangladeshi authorities, as an example, cooperatively share sensitive Rohingya data with the Myanmar government that led the prosecution of this group) (Fejerskov et.al. 2023a). The MFA should actively formulate and adopt principles of data protection and minimisation that set out requirements for subcontractors and recipient partners, and demand

compliance with such requirements in the event of funding. While most development partners have formal data protection policies, most studies and evaluations show that these are rarely complied with in practice, especially at field level.

### **Programmatic integration of tech concerns**

While the Digital Democracy Initiative represents a major step forward in bringing tech issues into the core of Danish development cooperation, aid programming has for some time suffered from an insulation from tech concerns. It seems that tech has been seen by many as either a fad, an assortment of material gimmicks, or concerns specific to the tech ambassador and her staff. In most of Danida's priority countries, however, emerging tech remains a force structuring the framework conditions of key social issues. It is impossible to work with social protection schemes, public health, or education without engaging the implications of digital cash transfers, privatisation and commercialisation of health data, or digital learning and vocational training of future (tech) workers (see Gray & Suri, 2019). As such, the MFA should be mindful of the structuring implications of tech in the relevant country programming efforts, both in context analyses and in planning of interventions (see Fejerskov et.al. 2023b). Strategy-wise, that means continuing the practice of not making tech a separate priority but rather pursuing its role in other different thematic priorities across strategic country programming, or in multilateral (and multi-bilateral) engagements.

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# TRANSPORT INFRASTRUCTURE, DEVELOPMENT, AND CONFLICT

Finn Stepputat

This essay draws attention to the local politics of the surging international investments in transport infrastructure that represent opportunities for trade, development, and public revenue, but also risks in terms of violent conflict, state fragmentation and redundant infrastructures. Would Denmark consider taking on a role in relation to such investments?

## Background

Infrastructure, connectivity, and supply-chain security have become issues of global and regional geo-politics and geo-economics, but they have also entered the global arena of development cooperation. After China pioneered the Belt-and-Road Initiative (BRI) in 2013, the US and others followed suit with the infrastructure-certification and investment programme Blue Dot Network (2018), G7 with Build Back Better World (B3W) (2021), and the EU with the Global Gateway strategy (GG) in 2021.

From a development perspective, these investments are premised on the identification of an 'infrastructure gap', not least in Africa where public investments in infrastructure suffered severe setbacks in the decades following structural adjustments (Buhigas and Costa 2023; Dahou and Chalfin 2018). It is assumed that alleviating the lack of state-of-the-art seaports, airports, transnational road- and rail corridors, as well as inland terminals that can facilitate container-based and other forms of transport, will bring down transaction costs in imports as well as exports and hence facilitate trade and African countries' access to regional and global markets.

## The political stakes of infrastructure and logistics investments

Investments in logistics and transport infrastructure, often in the form of public-private partnerships and joint ventures, are key for transnational trade. While technical in nature, they involve huge political stakes in the receiving countries as the investments are associated with anticipated outcomes such as jobs, further investments, increased land prices, and economic activity (Greiner 2016). An important aspect of decisions on locations, routes and governance of transport infrastructure is the taxation of the flows of goods (and people, information, and money) that new or upgraded infrastructures facilitate. Taxation by central, local, and non-state authorities takes place at chokepoints and nodes along transport routes, such as ports, airports, border posts, and marketplaces. Despite two decades of tax reforms aimed at shifting states' revenue from customs to VAT, income- and property tax, customs still make up an important, and often essential, source of domestic revenue in many states in Africa and elsewhere (Moore 2021). In Somali areas, for example, it seems that access to such 'taxes on flows' is what can finance public administrations and security forces and hence make or break state- and substate projects (Hagmann and Stepputat 2023).

New and shifting transport routes are seen to create winners and losers among political and commercial elites and populations in general. Control over gateways, nodes and routes of

transnational trade is a highly contested source of revenue and a political strategy for states and aspiring state-builders. This is particularly true in areas affected by armed conflict or where the reach and authority of the state is limited and contested, such as the Horn of Africa, the Sahel region, DR Congo, CAR, Sudan, and South Sudan. Control over strategic hubs and gateways is a key military objective, and taxation of commodity flows (including natural resources and consumer goods) and flows of people at checkpoints along trade routes is a crucial source of income for rebel groups and insurgent movements (Schouten 2022). Thus, much of a country's political economy is determined by who are the key gatekeepers of trade flows between national and international markets, who controls the logistics, who is able to move and tax goods, and who isn't (Cooper 2002).

### **Implications for peace and conflict**

Contrary to the traditional argument that trading creates conditions for peace (the 'commercial peace' argument), research has given many examples of how trade and transport infrastructures create or magnify conflict, including armed conflict. Unfortunately, no single model of trade, infrastructure and conflict/peace interactions can explain or predict whether investments in infrastructure and logistics create conflict or peaceful coexistence. This depends on the specific commodities, on the types and scales of the trade-flows in question, on the constellation of political, military, and commercial power, on the geographies in question, and on previous or alternative transport routes.

### **Infrastructure and development cooperation**

Hence the need for country-specific and/or regional analyses of political economies of trade & transport when engaging in trade-related infrastructural investments. Very little meaningful practitioner-focused guidance is available on how to consider conflict sensitivity in relation to such investments. While some Danish companies are big in global logistics and infrastructure development (Maersk, APM Terminals, DSV, Unifeeder, etc.), the Danish government is a very small player in relation to the international infrastructure-related efforts by China, US, G7 and the EU. However, considering the surging importance of these efforts, Denmark might consider supporting and engaging in related, strategic efforts, including political economy analyses, planning and design of elements of larger infrastructural projects, efforts aimed at turning transport corridors into development corridors, and improvement of national customs systems (Cantens and Rabbaland 2021). Such efforts could either take place in relation to EU channels for setting up infrastructure investments and joint ventures, or at country or regional levels through embassies, in a similar way to efforts by for example FCDO and TradeMark Africa.

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# MULTILATERAL COOPERATION AND ENDING EXTREME POVERTY

Lars Engberg-Pedersen

Due to the intensified global strategic competition, the rules-based order and multilateral cooperation is under pressure. A world order that we, as a small country, have benefited from. This is particularly serious at a time when we are facing both shifts in power dynamics and global challenges such as poverty that require global solutions. (Danish government, Foreign and Security Policy Strategy 2023: 20)

In a world characterised by strategic competition and global crises, Denmark should, according to this strategy, engage in partnerships and alliances built on pragmatic idealism with the purpose of strengthening multilateral cooperation and a rules-based world order. How can development cooperation through the multilateral system support such an endeavour? This is the question addressed in the present essay.

Both directly and indirectly, Danish development assistance already supports UN organisations and multilateral development banks to a large extent. Although it can be disputed whether all these organisations respond equally to the concerns of different countries and thereby support ownership everywhere, they are evidently significantly institutionalised expressions of a (somewhat biased) rules-based world order. Thus, *a first straightforward possibility* is to increase the support for these organisations.

The distinction between core and earmarked funding is often discussed in relation to multilateral organisations. There are different subcategories (Bosch et al. 2020; Gulrajani and Lundsgaarde 2023) and it is probably more accurate to talk about a continuum between core funding with no strings attached and geographically-bound, project-specific earmarked funding. Different forms of funding may serve different purposes, but the more earmarked the funding, the greater ‘the risk of instrumentalising multilateral organisations for project implementation purposes, and by doing so, reducing their programmatic coherence, effectiveness, efficiency and legitimacy.’ (Baumann et al. 2020: 1) Recent research corroborates this view (Reinsberg and Siau Wijaya 2023) which suggests that strongly earmarked funding tends to undermine multilateral organisations and thereby a rules-based world order. Thus, *a second possibility* is to reduce relatively earmarked funding in favour of relatively core-based funding. A recent evaluation of Danish multi-bilateral assistance supports this view (Fölscher et al. 2023).

Historically, multilateral development cooperation and core funding of multilateral organisations have been criticised for deprioritising Danish values, interests, and visibility in development cooperation. It has also been argued that bilateral assistance is necessary to build Danish capacity and insight into development processes – an insight which, furthermore, is important for Denmark to be regarded as a sound and professional partner in multilateral cooperation. While not irrelevant, these objections may be less important today than they once were. First, many aid-receiving countries have become much more self-reliant and unlikely to cater to the particular interests of a small donor like Denmark. Secondly, the introductory quotation indicates that

Danish interests may have moved towards more long-term concerns regarding international cooperation rather than country-specific policies.

In the last couple of decades, the use of trust funds has become quite widespread in development cooperation (Reinsberg 2017). Trust funds vary from country- and activity-specific pools of funding to global entities with a sometimes rather broad mandate. Many of the latter and some of the former – particularly when managed by international organisations – can be seen as a concretisation of multilateral cooperation in a particular field, but also as a kind of earmarking given that such funds typically have a relatively limited mandate and are easily established. However, the focus may be broader for some funds such as the Adaptation Fund than for some UN organisations such as UNAIDS. Thus, the distinction between international organisations and global trust funds is far from crystal clear. The proliferation of trust funds, often used by international organisations as a way of attracting funds and sometimes used by donors to dispense funds quickly with a minimum of administration, is obviously a problem, and competing trust funds established to satisfy different political interests (Skovgaard et al. 2023) clearly undermine multilateral cooperation.

Two other criticisms can be levelled against global trust funds. One is that they tend to adopt a similar (blueprint/'best practices') approach under different circumstances, and another is that they may focus on specific issues within a sector (e.g. the Global Fund to Fight AIDS, Tuberculosis and Malaria) boosting the structures addressing these issues but leaving other parts of the sector behind. In that case, increasing support to trust funds does not achieve the aim of either strengthening multilateral cooperation or contributing to development. However, in a recent publication Homi Kharas and John W. McArthur (2023) take much of the criticism into account, and state that carefully designed trust funds may avoid the mentioned weaknesses and should, accordingly, not be excluded from the multilateral toolbox. Kharas and McArthur suggest combining three elements into a new initiative with significant potential. The three elements are recent research, new technologies, and results-focused and innovative institutions, and the initiative is a global fund for cash transfers to end extreme poverty.

In terms of recent research there is now a large amount of literature on conditional and unconditional cash transfers, their optimal design, and their effects under different circumstances and for a large variety of purposes. While not a silver bullet, cash transfers are generally associated with positive impacts on poverty, nutrition, health, education, savings, and investments (Bastagli et al. 2016). Moreover, it is estimated that the marginal value of public funds used for targeted cash transfers in low-income settings exceeds the costs (between US\$1.11 and US\$1.65 for every US\$ spent, World Bank 2022: 193). If well designed, cash transfers are likely to significantly improve the conditions of people living in extreme poverty.

In terms of new technologies, the spread of mobile telephones and digital banking has enabled a much more efficient transfer of funds to impoverished people, and a government programme in Togo used machine learning to reach the most vulnerable groups during the COVID-19 pandemic (World Bank 2021). While some poor people may not receive the intended support, and some funds may end up in the pockets of richer people, it seems possible to reduce such errors over time. It is estimated that more than 60% of cash transfer programmes benefit the bottom 40% of the

population which are figures reflecting a far better targeting of the poor than, say, subsidies (World bank 2022).

In terms of results-focused and innovative institutions, the Global Fund and GAVI have been described as relatively effective organisations characterised by features such as pursuing a clear, specified goal ideally within a limited time horizon, significant openness to new technologies, independent evaluations to ensure constant learning, multi-stakeholder governance, ability to adapt to changing circumstances, and adequate financing (Kharas and McArthur 2023). The more an institution can be organised around one clear purpose, the more it is likely to succeed.

Therefore, *a third possibility* could be to initiate or promote the creation of a global fund to end extreme poverty. In addition to responding to calls to eliminate extreme poverty and increase social protection in the 2030 Agenda and more recently by the G20, such an initiative could be interesting for Denmark for three different reasons. First, it would significantly strengthen the demand side which is generally underprioritised in development cooperation. Support of the supply side in terms of schools, health clinics, infrastructure, renewable energy, institutional reforms, etc. is understandable and important but inadequate if demand is limited. Moreover, cash transfers may enable receivers to develop their political views more independently – something which could be important in the global ‘battle for influence’ where ‘China and Russia assert themselves through offers of investments, cooperation, and support, which is often aimed directly at the local elites, and thus seek to shape the foreign policy orientation of these countries.’ (Danish government 2023: 17) In international discussions of development, suggesting a global fund for ending extreme poverty would be an innovative initiative reflecting an ambitious new strategy for Danish development cooperation.

Second, a multistakeholder fund to end extreme poverty would be a significant manifestation of multilateral cooperation strengthening the rules-based world order as it is reflected in key agreements such as the 2030 Agenda and the Paris Declaration. Eliminating extreme poverty is one of the increasingly few issues that no government can reasonably criticise or neglect. Thus, it may also be an initiative that can gather broad support and, accordingly, a way to strengthen multilateral cooperation.

Third, such an initiative is likely to position Denmark positively in the global strategic competition, thus opening doors for partnerships and alliances. Substantially contributing to a fund for the eradication of extreme poverty could help remedy weakening perceptions in the Global South of a hypocritical West that is only concerned about itself – something which is highly needed these days and which could enable cooperation in other fields such as renewable energy and climate change adaptation. Denmark was a first mover in contributing to the Loss and Damage Fund and has here the possibility to position itself on the normatively important point of eliminating extreme poverty.

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# **AID FRAGMENTATION WITH EXAMPLES FROM CLIMATE SUPPORT**

Ole Winckler Andersen and Rasmus Hundsbaek Pedersen

## **Background**

How many countries should Denmark support with development assistance? In how many sectors and thematic areas should Denmark be engaged in each country? Should Danish development assistance consist of a number of projects or larger programmes? To which extent should Denmark work towards implementing an explicit division of labour between donors? Is support provided through multilateral trust funds a good solution? The answers to questions like these have significant implications for recipient countries' ownership of the activities and the effectiveness of Danish development assistance.

In the process leading up to the adoption of the Paris Declaration in 2005, discussions and meetings already had a strong focus on how to avoid the negative implications of aid fragmentation. Thus, in the Declaration it was stated that donors '... will intensify our efforts to provide and use development assistance, ..., in ways that rationalise the often excessive fragmentation of donor activities...' (see OECD, 2005). At that time, various academic papers also addressed the issue of fragmentation (see e.g. the oft-cited Acharya et al., 2006). The promises of the Paris Declaration seem to have been more or less forgotten, and many donors still have a large number of individual projects – to some extent driven by domestic political priorities - as their main modality. This is not least the case within the energy sector and support for climate change mitigation and adaptation, although project support has been complemented by a large number of multilateral trust funds.

## **Recent research on aid fragmentation**

The significant fragmentation of development assistance has led to several more recent papers in academic journals (see e.g. Gehring et al., 2017; Furukawa, 2020; Carlitz and Ziaja, 2023). Some of the main conclusions in these papers are that it is important to distinguish between different dimensions of fragmentation on both donor and recipient side (country, sector or project fragmentation), and how fragmentation is related to harmonisation and coordination and how it differs between different recipient country contexts. In some contexts, aid fragmentation may have detrimental effects on outcomes and lead to higher transaction costs and overburden the administrative capacity, while in other contexts fragmentation and donor competition may have positive effects (for instance due a stronger recipient position and the fact that the recipient country can benefit from a larger number of experiences). The implications of aid fragmentation may also depend on the extent to which donors and recipients have shared priorities. If priorities are shared, aid fragmentation may, at least in some cases, be less of a problem. Thus, there are various factors which can influence the implications of fragmentation, and therefore donors should in each case carefully consider the implications of the nature and degree of aid fragmentation of their development assistance.

## Examples of figures on the fragmentation of Danish aid

As indicated above, the academic literature mentions different approaches to measuring aid fragmentation, but also that the different measures should be interpreted with some care (see e.g. Furukawa, 2020, which contains a literature review).

Below are some figures for Danish aid without trying to analyse the figures or discuss their potential implications. Background analyses for the ongoing Joint Nordic Evaluation of Contributions to Multilateral Trust Funds show that Denmark, in the 2004-2022 period, supported 179 trust funds in the World Bank and 42 in the UN. The latter figure only includes trust funds reported by the UNMPTF (UN Multi-Partner Trust Fund Office) and not support for a number of thematic trust funds. The same background analyses also show that a large number of these trust funds have a thematic focus on climate change. A simple count of the number of countries which received Danish development assistance in 2022 in the OECD CRS-database gave 73 countries, which is lower, but not significantly, than the figure reported for Denmark in Acharya et al., 2007, which was 87 countries. Another example is based on various documents provided to UPR in May 2023. These figures showed that GDK (now Klima) had 192 ongoing projects under DKK 39 million (the present number is probably lower due to organisational adjustments), and has presented UPR with 36 new projects over DKK 39 million since January 2020.

As an example of the challenges of aid fragmentation, below we will review different recent evaluations and studies with a focus on climate change in which the issue of fragmentation and its implications have been addressed (see e.g. IEG, 2020; Skovgaard et al., 2023; Lee et al., 2023; Pinar, 2023). The evaluations and studies cover both multilateral and bilateral aid.

Some of the main findings and conclusions in these evaluations and studies are that coordination between supported activities should be strengthened in order to benefit from comparative advantages and synergies. This applies for instance to various World Bank Group institutions, such as WB, IFC and MIGA. At the same time, it is concluded that there is weak capacity in many countries to manage ongoing activities or new investments (see IEG, 2020). Similar conclusions can be found in a study which analyses the coordination (or lack thereof) between Green Investment Fund (under World Bank) and Climate Investment Fund (under UN) (see Skovgaard et al., 2023). One conclusion states that the implications of uncoordinated support are a reflection of competing interests and insufficient capacity at country level. Another paper (Lee et al., 2023) analyses various climate funds and concludes that there are significant challenges regarding fragmentation, performance and efficiency, and it is suggested to merge, where relevant, existing trust funds and find alternatives to establishing new trust funds. These evaluations and studies indicate that fragmentation and lack of coordination of multilateral climate support is a significant challenge, and there are no indications that fragmentation benefits recipient countries.

Two recent Danish evaluations with a focus on climate mitigation and climate adaptation (Danish Ministry of Foreign Affairs, 2020, 2021) mentioned that a number of different, so-called commitment pathways were used and that a total of 119 commitments were made to mitigation alone in 2016-2018. The two evaluations do not, however, discuss in any detail the potential implications of the large number of implementing partners and commitments, but it is indicated that coordination is important: 'Danish interventions often seem under-resourced relative to this

ambition but can be effective if they coincide with trends created by other actors or influences.’ (Danish Ministry of Foreign Affairs, 2021, 14).

### **Dilemmas and challenges of aid fragmentation in Danish development assistance**

As shown above, aid fragmentation continues to be considered a challenge in the academic literature as well as in evaluations and other studies. Figures indicate that Danish development assistance continues to be significantly fragmented, and that using multilateral trust funds does not necessarily eliminate the negative consequences of fragmentation. There are therefore good reasons for creating more awareness of the consequences of aid fragmentation when new programmes and projects are being prepared and approved.

Using support for climate change mitigation and adaptation as an example, this could lead to several suggestions which may also be relevant for other sectors and thematic areas. These suggestions reflect the findings in the academic literature, that the implications of fragmentation will depend not only on the specific activity, but also the context and the engaged actors:

- Assess the context, including capacity and sector management, in recipient countries in more detail, and consider providing institutional support if found relevant.
- Avoid aid fragmentation in particular in fragile and low-income countries with weak capacity.
- Ensure that the provided support reflects recipients’ priorities.
- Avoid fragmentation at sector and programme level and use a sector- or programme-specific perspective to avoid overlaps and imbalances.
- Ensure coordination with other both bilateral and multilateral actors, including a relevant division of labour.
- Ensure that support is not provided for multilateral trust funds with overlapping mandates, and where relevant and feasible promote the fact that trust funds are being merged.
- Carefully consider using existing trust funds instead of establishing new trust funds.

Smaller donors – like Denmark – should in particular be aware of the above suggestions, and instead of making many smaller contributions attempt to focus their support and strengthen coordination with other donors.



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# INCREASING DEVELOPMENT IMPACTS IN LIGHT OF COMPLEXITY AND FRAGMENTATION: THE ROLE OF PORTFOLIO MANAGEMENT

Adam Moe Fejerskov

We increasingly recognise the immense complexity, scale, and interconnectedness of contemporary development challenges. At the same time, many donors have seen a growing proliferation and fragmentation<sup>3</sup> of their development cooperation efforts, markedly expanding the number of individual projects and commitments. These two developments align very poorly, seeing as the first stresses the need for systemic change, while the second works from a projectised and atomistic logic of change that often fails to address challenges at the level needed.

To limit fragmentation and handle the proliferation of projects, several methodologies have been pursued over the past years that include *Doing Development Differently* (DDD) in the form of e.g. theory of change-driven adaptive country strategic frameworks and a focus on less rigid results frameworks and double-looped learning. However, while DDD forms a strong adaptive methodology for acting in situations characterised by high complexity, it mainly focuses on the ‘how’ and less so on the ‘for what’. The current Danish DDD-approach, as an example, works with Theory of Change and passing mentions of ‘portfolio management’, yet it adopts a view to change that is wide and ambiguous<sup>4</sup>. While this is helpful in terms of describing the complexity of drivers of change, it leaves something to be desired in terms of setting out strategic objectives. In other words, it tells us something about how we should see change (as not driven only by Danida – which is good), but it almost leaves us with the conclusion that because of the complexity of change, we cannot set focused strategic objectives. In a context of fragmentation and proliferation, this is unfortunate.

This essay will briefly explore the question of how strategic coherence can be better pursued to enhance the focus on systemic change, enabling a better response to the complexity and scale of current development challenges in a context of multiple priorities. Specifically, I explore portfolio management (or the portfolio approach) as one way to improve strategic coherence and focus<sup>5</sup>. Like DDD itself, portfolio management does not create a revolution in the field of development cooperation but rather an enrichment of certain elements, particularly those relating to formulating and coherently pursuing objectives of systemic change.

Portfolio management or the portfolio approach starts from an assumption that current ways of pursuing strategic objectives are often based on an assembly of disconnected, individual solutions. Interventions, projects, programmes, or instruments may fall within the same thematic frame, but

<sup>3</sup> For a tangible case of fragmentation and its impacts, see the discussion on support to renewable energy in this collection.

<sup>4</sup> The MFA’s Guidance Note, inter alia, describes that ‘In an adaptive approach, the focus of the Theory of Change is less on what Danida (or other development partners) will contribute to, and more on describing the broader dynamics and causal interplays that are expected to lead to positive change’.

<sup>5</sup> Drawing upon work on portfolio management done in different institutions at the moment, including within UNDP’s Strategic Innovation Unit and the Novo Nordisk Foundation. Denmark has been a key funder of UNDP’s strategic innovation work.

that does not ensure their interconnectedness. And current projectised logic feeds organisational silos and impedes systemic change.

The portfolio approach suggests remedying this by ensuring a strong strategic connection between initiatives by a network of stakeholders, improving the likelihood of change and impact (be it social, political, or economic) whilst representing a more coherent mobilisation of resources. The underlying thread then is coherence, not just coordination, for the sake of impact. By organising activities more cogently around an overarching intent, portfolios allow us to address issues more systemically across individual, institutional, and systems levels.

Consider something like energy. We may work towards increasing the local or national capacity to produce energy, but if we do not also engage in intermediary concerns of energy systems to ensure its potential delivery to villages far from central grids, whilst also understanding and working with barriers to actual access for people on the ground (barriers that are often holistic and move across sociotechnical, economic and political obstacles), the likelihood of systemic change is very low. To some, including several UN organisations, serious portfolio-work is seen to represent a radical reimagining of an organisation's purpose and underlying systems to support non-extractive, non-colonial logics, because it helps us to better understand who we are trying to help, with what.

While the initial intent for the portfolio approach is classic DDD, seeing systems as complex and characterised by contingencies, portfolio management is less about the small-scale experimentation put forward by DDD and more about achieving systemic change through strategic coherence. Portfolios are still absolutely aimed at achieving adaptiveness, but their purpose is to ensure significant impact by way of higher-level strategic objectives.

No organisation will start from a clean slate, and as such the first tasks involve working from what is there, incrementally transforming it to fit the portfolio. That means asking questions as to whether existing activities represent a balanced view of the systemic approach, working well across all its levels, or whether that view is skewed to certain sides, but also as to where there might be blind spots or patterns we are not seeing. This needs to take place at the same time as other crucial tasks, including reviewing and potentially transforming mandates to fit the value proposition for the organisation, as well as deciding on and unpacking strategic objectives for the portfolio. Both will typically challenge existing power and organisational structures, all while existing activities keep running, making for a challenging exercise.

Aside from marked changes to the pursuit of strategic objectives, the main rethinking a portfolio approach requires likely relates to the organisational and individual competencies needed. On the organisational side, portfolios require a stronger organisational ability to identify and act upon political windows of opportunities, pursue inside/out tactics (getting others to put pressure on key decision-makers), and an ability to see ourselves as part of systems (rather than taking the stance of outside 'experts', we must immerse ourselves at different levels of granularity in the dynamics of the system we are trying to affect), focusing on relationships and feedback loops (rather than isolated components) and embracing emergence (rather than linear planning). A significant challenge is the need to not project internal organisational taxonomies upon problems we would like to solve – 'because we are organized as  $x$ , we must approach problem  $y$  as such'. Instead, we

must let the challenges define how we work. As such, the almost guaranteed event that a portfolio does not belong to a single entity forms not only a bureaucratic challenge but an opportunity to confront traditional power dynamics within a development organisation and to ensure that certain departments do not maintain full control over certain portfolios.

As regards individual competencies, portfolios require a need to prioritise strategic and political proficiencies above technical and delivery skills. That means fewer bureaucratic and generalist skills and greater expertise in pursuing (systemic) change, be it political, social, or economic. To this is added a need to build a high threshold of tolerance against ambiguity, i.e. having people who are good at being in a state of discomfort vis-à-vis uncertainty. Instead of being seen as only a challenge, evolving dynamics and at times contradictory signals must be embraced as opportunities for change.

*Ultimately, portfolios* can be vehicles to achieve system change through a connected set of interventions that challenges the projectized logic of our work, with its focus on linear, compartmentalised solutions and delivery. This logic is a poor fit with the complex, systemic nature of the challenges we are facing that call for adaptation and accelerated learning. This change requires us to move away from identifying single 'success stories' or 'best practices' that look for single point solutions and then aiming to scale them. Instead, this new approach allows us to focus on the bigger picture, working with potential leverage points across existing silos, and to orchestrate connections between interventions that must reinforce each other. While seemingly focused on what donors themselves may do, the perspectives voiced here support approaches that are more attuned to local realities and needs by pushing for systemic changes vis-à-vis fragmented interventions that are unable to produce impacts at the scale needed to overcome current challenges.