

4 Denmark's bilateral aid, 1962–1991

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A development aid scheme is not adequately defined or described merely by legal statutes, strategy papers or other explicit considerations by experts and policy-makers. It ought to be understood just as much in terms of it working as an actual enterprise. What was done? Where? How many times? At what cost? In order to accomplish what? To whose benefit? These are just a few of the pertinent questions.

The objective of this article is to present the main characteristics of Danish bilateral aid in the light of its economic and institutional diversity. The subject is expounded structurally within three sub-periods and the changes between the periods are discussed. Specifically, it is an exercise based on a few selected descriptive statistics regarding the 1705 individual development projects – in terms of their geographical, sectoral and institutional distribution – which, over the entire period of 1962–1991, were financed by Danida, the Danish development agency. The data-source is the Danida Project Database, this was created and documented by a research unit at the University of Aalborg¹ and made available to the author of this article through his involvement in writing a volume on the history of Danish policy in the field of Third World development.² See appendix.

The bilateral aid scheme was paid for by the state; and it served the purpose of the state: to build international goodwill;

¹ H. A. Nielsen, *Databased Information on DANIDA-Projects 1962-91*, GUF Working Paper Series no. 30, University of Aalborg, 1992.

² Chr. Friis Bach et al., *Idealer og realiteter: Dansk udviklingspolitik historie 1945-2005* (Copenhagen 2008).

to establish connections between Danish companies and citizens with clients and partners abroad; and to advertise Danish capabilities and points of view, commercial, political and otherwise. In order to do so, various resources in society were mobilised, based on selfish motivation, idealism and, in general, stakeholderism. Likewise, the target group of recipients was diverse. To show the diversity of the Danish aid scheme is by itself an important concern in the following exposition. It can be asserted with some confidence that the statistical evidence will effectively support this point. However, the motives and rationales behind its various aspects do not emanate from the figures. Advancing to this more interesting point requires a more contextual and even speculative line of enquiry. Still, it will be attempted to render plausible such hypotheses by showing that they are consistent with the case material that is available.

Danish development aid

In 1965, three years after setting up the institutional framework for a proper Danish development aid scheme, its directors and the Danish government received a wake up call from Willard L. Thorp, the US chairman of OECD's Development Assistance Committee (DAC). During the annual examination procedure he described the Danish effort level as 'distressingly low'.³ With a contribution of just above 0.1 per cent of GNI Denmark's performance was indeed poor, the DAC total being on almost 0.5 per cent. In all fairness, it should be borne in mind that this was the age of decolonisation. Denmark was not in the process of parting with any overseas possessions and was, by implication, unable to smoothly modify and continue existing relationships. Still, the missing (post-)colonial bonds could not serve as an excuse for the fact that over the previous three years the new commitment to development aid had not yet materialised as any significant rise in programme resources.

³ Danish National Archives, UM 104.Dan.2/1, Board for International Development Cooperation: Agenda and Minutes (hereafter: DNA UM 104. Dan.2/1), meeting on 7 May 1965 (box 9); OECD/DAC, Summary Record of the 58th Session, Paris 22-23 June 1965, DNA UM 104.Dan.2/1 (box 13).

Even though, by itself it was of no grave importance, Mr. Thorp's sour remark was duly noted. For the remainder of the decade Denmark increased her aid flow by a double digit compound growth rate, thus augmenting the value as percentage of GNI to 0.38 in 1969, by then the equivalent of the DAC total. Later development went in the same direction, putting Denmark near the top of a generosity ranking. The international target of 0.7 per cent of GNI for publicly funded transfer to Third World countries was reached at the end of the 1970s.⁴

Those were formative years for Danish development aid and especially for the bilateral part. Even if the previous donations had been small, Danish decision-makers used to take a certain pride in the existing contribution to the United Nations. It absorbed the major part of the total amount and had perhaps for the same reason created the delusion – adequate for domestic publicity – that the general effort was respectable.⁵ However, from 1962, when the new Law of Cooperation with Developing Countries was passed, the creation and management of a bilateral programme was the major task at hand. Within a few years it consumed one half of the total funding. In comparison with most other countries this was still relatively little. In international ODA history it is a commonplace that the Scandinavian countries together with a few others maintain particularly high multilateral shares. They are small wealthy states, convinced of their own righteousness and concerned with getting attention and gaining influence in forums and discursive arenas like the UN.⁶ However, motives for having an extensive bilateral programme were strong as well.

⁴ Figures according to DAC online, Annual aggregated statistics on aid and other resource flows, <http://www.oecd.org/dataoecd/50/16/5037775.htm>; S. Gupta et al., 'Are Donor Countries Giving More or Less Aid?', in *Review of Development Economics*, vol. 10, 2006, pp. 535-552, here p. 537.

⁵ P. Brunbech, *Dansk udviklingspolitik 1949-71: En analyse af den tidlige udviklings- og bistandspolitik over for ulandene og dens funktion i dansk udenrigspolitik*, Ph.D. thesis, University of Aarhus, 2006, p. 269.

⁶ J. S. Hoadle, 'Small States as Aid Donors', in *International Organisation*, vol. 34, 1980, pp. 121-137, here pp. 128-130.

Balancing bi- against multilateralism – and the opaque motivations for providing aid

During the period of rapid expansion, there were moments when it was difficult for Danida to find sufficient outlet and pipeline capacity. Suitable project proposals were hard to come by. Once identified, planning, manning and execution still demanded time and effort. Sometimes appropriations could hardly begin to be implemented within the one-year timeframe stipulated by budgetary rules. Normally it was only a technical problem, but when the issue occasionally made the political agenda, the most eager supporters of development aid suggested an increase in the multilateral share. Doing so, the argument went, would alleviate the immediate problem and be of real benefit to recipients, seeing that UN funding was independent of the interests of individual donor states. The response from the administration towards this notion was negative, on the grounds that the multilateral programme was already of considerable size and could not in practice be extended further without thorough consultation between Denmark and UN authorities.⁷

Behind the moderate and balanced wording lay untold, indeed almost unspeakable arguments. In all likelihood policymakers found that the trade-off between benefit (some additional development effect and international goodwill), and cost (increased expenditure) was not favourable enough to justify using the multilateral component as an emergency drain for vacant money. With certainty they were also, albeit not revealing it in public, concerned about a negative reaction from the organised interests of trade and labour, who drew much greater benefit from the domestic demand generated by bilateral aid funding than from orders and jobs provided by the UN. The so-called reflux quota was a topic regarded with interest even though it was difficult to tell its size with

⁷ *Folketingstidende* [Records from the Danish 'Folketing' (Parliament)], debates on 12 May 1966, 14 Dec. 1966, 31 Oct. 1968.

certitude.⁸ More importantly, public opinion was ambiguous in regard to the meaningfulness of development aid. There was no massive resentment among voters; actually, in the longer term, the approval rate was rising. This may in part be attributed to a combination of aid expenses growing habitual and leading questions at the poll. The aid scheme did need justification, and the idea of resources going directly from people to people in the form of Danish products and personnel probably helped to convince a sceptical populace.⁹

As stated above, Denmark's small state status conferred strong reasons for not going in the reverse direction either, that is, shifting the major part of aid disbursement from multilateral to bilateral. Nevertheless, the glorified and for a considerable time stable fifty-fifty balance between multi- and bilateral aid did eventually, for Denmark and other so-called likeminded countries, undergo a moderate shift so that these countries, at the beginning of the 21st century, have a multilateral share of no more than 40 per cent, in most cases considerably less. In the long run and with a growing total budget, the case for bilateral aid seems to be somewhat stronger than for multilateral, even under circumstances – the position as a wealthy, small, welfare-oriented state – that are less biased towards the bilateral option than for the majority of countries.

At long intervals multilateralism is revived internationally, but is unlikely to prevail. Major powers have Third World allies – often these are ex-colonies – with whom

⁸ DNA UM 104.Dan.2/1, meeting 17 Mar. 1967 (box 16); Council for International Development Cooperation, Conference on UNDP 14 Mar. 1973, minutes in the custody of Danish Ministry of Foreign Affairs; Væksthæmmende faktorer i Danmarks u-landsbistand: Mellemfolkeligt Samvirkes konference i Hornbæk 27. februar-1. marts 1969, conference proceedings 1969, Danish Association for International Cooperation (Mellemfolkeligt Samvirke) 1969, p. 176; N. Arnfred et al., *Hvem hjælper hvem? En kritisk bog om Danmarks u-landsbistand* (Copenhagen 1975), p. 45f; N. Petersen, *Europæisk og globalt engagement 1973-2003, Dansk udenrigspolitik historie 1973-2003*, vol. 6 (Copenhagen 2004), pp. 555f.

⁹ Note from Chr. Kelm-Hansen to Kjeld Philip 17 Aug. 1972, DNA UM 104.Dan.2/1 (box 31); diverse opinion polls, see for example, C. Kelm-Hansen, *Det koster at være solidarisk: Socialdemokratisk u-landspolitik 1945-2000* (Copenhagen 2000), pp. 288f.

they maintain special relations.¹⁰ Development aid is a foreign policy instrument. All the same, for a small state like Denmark, who was not on the circuit of international high politics, the bilateral eagerness in some ways remains a puzzle. When the 1962 development cooperation law was drawn up, different agents in Danish politics attributed different value and relevance to the various operational modes that were available:

- Concentration of resources on participation in and contributions to the UN – an option that was consistent with ambitions of being idealistic and high-principled, but also reconcilable with the self-interested purpose of image-building.
- A strong bilateral effort serving direct national economic interest as well as politically useful relations of amity with individual Third World nations – a *quid pro quo* approach based on the expectation of mutual benefit.
- People-to-people orientation, based on confidence in the latent capacity of civil society, only assisted financially by the government who – as likely as not – would canalise funds and activities through the very organisations that were led by those who advocated this view.

On the passing of the law, neither of these guidelines had been excluded from playing a role in the future composition of actual policy, nor had either of them been elevated to a trend-setting position. This can be interpreted as the establishment of a compromise between conflicting interests, but no less as a firmly negative response from legislature and administration to having their hands tied and giving particular interests institutional importance in the field of foreign relations.¹¹

The common denominator was undoubtedly a genuine desire to further development, for both altruistic and self-interested reasons: solidarity, international peace and security,

¹⁰ A. Alesina and D. Dollar, 'Who Gives Foreign Aid to Whom and Why?', in *Journal of Economic Growth*, vol. 5, 2000, pp. 33–63, here pp. 41f, 45.

¹¹ Brunbech, Dansk udviklingspolitik, pp. 246–52, 255, 257f.

or economic opportunity, as the case may be.¹² Committed opinion-formers and lobbyists from political, social or religious organisations or even business will always in some measure – again for diverse reasons – desire cooperative interaction with Third World societies. But that the state – represented by government and legislature – on behalf of the whole of society should display such a strong and financially demanding commitment still calls for a deeper explanation. More often than not aid projects have a rather disappointing outcome and – not least in the face of this risk – the transaction costs incurred by the running of the scheme can be substantial.¹³ An immediate benefit to compensate for the expenses is inconceivable. Therefore, if not the very existence of the bilateral programme, then its considerable scale needs to be rationalised.

The basic assumption of this article is that the bilateral aid programme was a multiform frame, serving to promote a real and direct Danish presence in, and communication with, Third World countries, covering a wide array of activities. Development aid represented – the more so as Denmark was no colonial power – a great opportunity and natural vehicle for endowing her with a small, but useful platform in a new post-colonial and ultimately globalised world. Building a commercial potential was important, but so was the formation and enrichment of human capital by making Danes in considerable numbers acquainted with the world at large. As experts, volunteer aid workers or businessmen they learned how to act and behave in the culturally different environments pertaining to newly independent states and societies that offered opportunity as well as risk. Positive externalities of this kind might compensate for the severe risk of failing – in the short or even in the long run – to achieve any real development through aid.

Pointing out a tangible nexus between declared intentions or desires and the actual aid programme cannot corroborate the latter supposition. The mere tinge of cynicism

¹² T. B. Olesen and P. Villaume, *I blokopdelingens tegn 1945-1972, Dansk Udenrigspolitik Historie*, vol. 5 (Copenhagen 2005), p. 376-78.

¹³ B. Martens, 'Why Do Aid Agencies Exist?', in *Development Policy Review*, vol. 23, 2005, pp. 643-63, here pp. 648f, 652f.

which is implied is sufficient to make the notion border on taboo, as it somehow runs counter to idealistic and appealing motivations hinged on recipient need. Grounded in the idea of mutual benefit particular donor interests are *per se* legitimate, but perhaps less so if they can be met irrespectively of the fate of the main objective: development in real terms. However, the autonomous thrust derived from being part of the game, regardless of its outcome, might be rendered plausible by showing particular *functional* aspects of the multiform aid system and its mode of operation. As the saying goes, the proof of the pudding is in the eating.

Recipient countries

From an early point in time, Danish bilateral aid was directed towards regions and countries with low GNP-levels. East and Southern Africa consistently accounted for more than a third of total, followed by Southern Asia (Table 1). By contrast, the relatively well off developing countries in Latin America received only a small fraction of the available resources. In Danish aid circles, anti-poverty orientation is considered to be the main pillar of the programme through all stages of its evolution. Bordering on the obvious, the statement signifies that poor countries and poor people in combination was always the target group, regardless of whether aid came in the shape of capital investment or direct services.

In broad outline this may be in accordance with the truth, but it was not a path entered upon after thorough deliberation or by execution of a carefully crafted strategy. At the beginning of the period, the government's advisory Board for International Development Cooperation discussed the respective advantages of supporting either very poor countries that were most in need, or countries that were better able to sustain the process and contribute more resources of their own, thus enhancing the chances of success. No specific conclusion was reached.¹⁴ Attempts to form strategic guidelines concerning this and other important issues were inconclusive or impossible to translate into standardised criteria and

¹⁴ Memorandum dated 21 Sep. 1962 concerning general guidelines for aid distribution, DNA UM 104.Dan.2/1 (box 2).

norms of action. Instead, routines were shaped by the multitude of decisions based on common sense judgement of how to handle the opportunities and problems that presented themselves on a current basis.

Table 1
Distribution of Danish development aid projects on world regions 1962-1991, grouped by initial year.
Amounts are in million Danish kroner (DKK), converted to 1975 price equivalent and discounted according to project duration.

Region	Periods of initial year of individual projects							
	1962-1971		1972-1981		1982-1991		1962-1991	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
East Africa	24.8 %	41.0 %	23.9 %	27.8 %	25.2 %	23.4 %	24.8 %	29.3 %
Southern Africa	8.9 %	7.8 %	12.9 %	9.0 %	16.8 %	11.6 %	14.7 %	9.8 %
SADCC*	0.0 %	0.0 %	0.2 %	0.2 %	3.9 %	4.4 %	2.5 %	1.8 %
West Africa	5.3 %	4.1 %	9.3 %	5.4 %	6.9 %	9.3 %	7.2 %	6.7 %
North Africa	8.5 %	6.8 %	6.8 %	6.2 %	4.1 %	8.6 %	5.4 %	7.3 %
Central Africa	0.8 %	5.6 %	2.0 %	2.7 %	0.4 %	0.4 %	0.8 %	2.5 %
South Asia	26.4 %	19.3 %	31.0 %	30.9 %	23.4 %	27.5 %	25.6 %	26.6 %
South East Asia	7.3 %	7.1 %	7.8 %	13.2 %	5.0 %	3.1 %	6.0 %	7.6 %
Far East	0.4 %	0.8 %	0.0 %	0.0 %	4.6 %	5.8 %	2.9 %	2.5 %
Middle East	6.9 %	3.6 %	2.4 %	1.7 %	1.4 %	2.3 %	2.5 %	2.4 %
Latin America	10.6 %	4.0 %	3.7 %	2.8 %	8.5 %	3.7 %	7.6 %	3.4 %
Total, values	246	3,781	410	5,380	1,049	6,150	1,705	15,311
Total, per cent	14 %	25 %	24 %	35 %	62 %	40 %	100 %	100 %

*Southern African Development Cooperation Conference

A small number of high priority recipients absorbed the major part of the aid flow. Not only on a regional level, but also in terms of individual partner countries there was a strong continuity. Tanzania and India were dominant for decades while a host of others played important, but secondary roles for periods of different duration. A residual part of the funds were distributed in small portions over a large number of countries, combining a principle of concentration on main partners with a slighter, more symbolic presence in other areas (Table 2).

East African countries provided an obvious opportunity in the first half of the sixties when they were establishing themselves as independent nations. In the process they needed both professionals for short run 'gap filling' and new sources of investment. Denmark, on the other hand, was seeking suitable outlets for the growing bilateral aid funds. In the case of Tanzania the long series of engagements began already in 1962 with the inter-Nordic Kibaha Education Centre project. It paved the way for more and more projects as common experience and confidence grew between the Tanzanian administration and Danida. The linguistic aspect was a circumstantial, but rather important factor.¹⁵

Table 2

Top 25 recipients of Danish bilateral aid 1962-1991, number of projects and shares of total amount.
Total amounts are in million DKK, converted to 1975 price equivalent and discounted according to project duration.

Periods of initial year of individual projects								
1962-1971			1972-1981			1982-1991		
Country	Projects	Amount	Country	Projects	Amount	Country	Projects	Amount
Tanzania	22	*26.7 %	Tanzania	56	17.8 %	India	97	12.8 %
India	44	15.6 %	India	52	13.9 %	Tanzania	115	12.2 %

¹⁵ Meeting on 20 Feb. 1975, DNA UM 104.Dan.2/1 (box 37); Annual report [in Danish] on development cooperation 1966, same archive (box 26).

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Kenya	21	9.0 %	Bangladesh	56	12.5 %	Bangladesh	89	11.6 %
Malawi	13	6.8 %	Vietnam	14	6.7 %	China	47	5.7 %
Congo/ Zaire	1	5.3 %	Kenya	30	6.6 %	Kenya	49	5.5 %
Egypt	6	3.6 %	Mozambique	11	4.0 %	Egypt	23	5.1 %
Uganda	9	3.0 %	Egypt	14	3.6 %	Mozambique	75	4.7 %
Indonesia	3	3.0 %	Philippines	6	2.8 %	Zimbabwe	57	4.0 %
Pakistan	16	2.5 %	Cameroon	2	2.4 %	Uganda	48	3.5 %
Tunisia	8	2.4 %	Uganda	5	2.4 %	Zambia	41	3.2 %
Zambia	8	2.2 %	Bolivia	6	2.2 %	Botswana	19	2.3 %
Thailand	8	1.4 %	Sudan	10	2.2 %	Nicaragua	43	2.2 %
Malaysia	5	1.4 %	Pakistan	7	2.1 %	Sudan	17	2.0 %
Ghana	7	1.3 %	Myanmar	2	1.9 %	Yemen (S)	11	1.7 %
Cambodia	1	1.3 %	Thailand	9	1.8 %	Morocco	3	1.5 %
Peru	11	1.2 %	Sri Lanka	8	1.7 %	Burkina F.	20	1.5 %
Jordan	5	1.2 %	Angola	2	1.7 %	Nepal	27	1.3 %
Benin	1	1.2 %	Senegal	4	1.5 %	Malawi	16	1.1 %
Sri Lanka	5	1.2 %	Botswana	11	1.5 %	Niger	5	1.1 %
Iran	3	1.2 %	Togo	4	1.2 %	Thailand	17	1.0 %
Brazil	3	1.1 %	Swaziland	13	0.9 %	Guinea	3	0.9 %
Turkey	6	1.1 %	Zambia	4	0.8 %	Somalia	6	0.8 %
Senegal	1	0.9 %	Malawi	9	0.7 %	Indonesia	8	0.8 %
South Korea	1	0.8 %	Jordan	5	0.7 %	Liberia	6	0.8 %
Morocco	7	0.8 %	Nepal	4	0.6 %	Benin	3	0.8 %
14 other countries	31	3.8 %	25 other countries	66	5.8 %	44 other countries	204	12.0 %
Total	246	3,781	Total	410	5,380	Total	1,049	6,150

* Tanzania's share in this period is boosted by one very large cement-industry project, continuing from 1968 through to 1985. It accounts for almost 13 % of the present estimate of total cost of projects initiated in the period 1962-1971.

Former British colonies were more attractive than French because English was the only foreign language in which

a reasonable proportion of Danes were able to cope; although other possibilities were not left unexplored. Nigeria and Ghana were seen as partners with an interesting and promising potential, but responded with no enthusiasm and were given up.¹⁶

Having only a few main recipient countries was favourable, even necessary, for Danida in several respects. An extended programme in a greater number of places could lead to organisational overstretch, but if restricted to a few countries, the cost and effort of adapting to the environment could be spread over a reasonable number of individual projects, helping to streamline the organisation. A project portfolio in any given country must be of a certain size in order to generate synergies and obtain economies through repeated interaction with local authorities and other contacts. Conversely, if a few projects – amongst the main recipients and even in general – were really large, it helped to absorb funds so that the total number of projects would not swell and obstruct a sound administration of even minor projects.¹⁷ This is one reason why the size profile of projects is top heavy, with average value significantly above median value (Table 3). For all three sub-periods roughly one upper tenth of projects occupied half of authorised expenditure, while in the lower end about 60 per cent of the total number of projects shared only 10 per cent of the funding.

However, manageability is not the only aspect to consider. On a more substantial level, the large number of very small projects spread in many countries is in agreement with the hypothesis – emphasised from the beginning of this chapter – that diversity serves an independent purpose: that of scanning the world for opportunities and relevant knowledge, regardless of the efficiency of the individual projects.

¹⁶ Meetings 8 May 1964 (and others shortly after), 6 Sep. 1968, 30 Oct. 1970, DNA UM 104.Dan.2/1 (boxes 7, 19, 25); DAC, Annual Aid Review 1971, Memorandum of Denmark, same archive (box 27); Growth-inhibiting Factors ... (supra), p. 45.

¹⁷ Memorandum on the concentration of the aid effort (in Danish), DNA UM 104.Dan.2/1 (box 16); Meetings 6 Sep. 1968, 2.10.70, same archive (boxes 19, 25).

Table 3

Size distribution of new Danish bilateral development aid projects, 1962-1991, DKK million converted to 1975 price equivalent and discounted according to project duration.

Period of initial year:	1962-71	1972-81	1982-91
Number:	*245	410	1049
Total value:	3,294	5,380	6,150
Maximum:	198.5	180.1	139.2
Mean:	13.4	13.1	5.9
Median:	4.6	4.6	1.5
Mean/median-ratio	2.9	2.8	3.9

* Here, as in the following tables, one top outlier has been removed, cf. note to table 2.

Old and new partners

Dependence on main partners was both advantageous and problematic at the same time. With growing aid grants Danida was almost permanently on the lookout for new project opportunities and thus vulnerable to negligence from her counterparts during project execution. Failure to honour an agreement's terms of self-contribution would hardly be met with any effective sanction on the part of a donor who was seeking to expand a programme and for whom the alternative of shifting major resources into another country was basically unattractive – also in terms of status and trustworthiness on the international stage.

For Danida's directors it was a question of keeping a balance. Priority partners were indispensable. On the other hand, when at the end of the 1960s an increasing number of projects in the pipeline made it necessary to prioritise more tightly it was met with relief. This was not exactly the case when a few years later the shortage of currency due to rising energy costs induced more developing countries to procure

aid transfers more eagerly. But it *was* noted, if only as a matter of fact, that the dependence on existing main partners had now been reduced.¹⁸ When in 1972 it was contemplated to devote major funds to development projects in newly independent Bangladesh there was some hesitation because of the graveness of the country's situation and the preference for a slower build-up. Nevertheless, the programme was carried into effect (Table 2), relying among other things on the argument that traditional outlets might be less risky, but also much less urgent.¹⁹ Later on, in the 1970s and 1980s, similar fast tracks were opened in the cases of Vietnam, Mozambique and Nicaragua. A new political motive was now involved. Denmark saw herself as one country among NATO allies who was capable of manoeuvring more freely than others and was able to reach across the Cold War-gap in order to prevent marginal or potential allies of the USSR from giving in completely to this attraction. A positive and open relationship with the Western alliance should stand as a reasonable and available alternative.²⁰ Another factor behind the modified profile was the increasing domestic commitment of left-wingers to development aid as a relevant policy area and career approach. De-industrialisation was beginning to dislocate traditional class conflict as the pivotal motive of politics.²¹ The integration of the former opposition into, as it were, one of society's established institutions, was negotiated through the concurrent inclusion of regimes whose worldview and rhetoric were cognate to those of the – only recently and

¹⁸ Meetings 18 Apr. 1969, 28 Aug. 1975, 18 Sep. 1975, DNA UM 104. Dan.2/1 (boxes 21, 40).

¹⁹ 'Criteria regarding the choice of partner countries and project types', memorandum (in Danish) to be presented on staff meeting 3 May 1972, kindly made available by Klaus Winkel.

²⁰ Olesen et al., *I blokopdelingen*, p. 608; Petersen, *Europæisk og globalt engagement*, pp. 141f, 240f.

²¹ Advanced here as an hypothesis, based on the fact that the radical left only over the last two or three decades has embraced foreign aid, first with some reservation, later whole-heartedly. The rise of NGOs informed by political ideology, rather than 'pure' humanitarian values, was part of the broader picture. Cf. K. Pearson and T. Draimin, 'Public Policy Dialogue and Canadian Aid: The Case of Central America', in C. Pratt (ed.), *Canadian International Development Assistance: An Appraisal* (Montreal 1994), pp. 268, 277; A. E. Ruud and K. A. Kjerland, *Norsk utviklingshjelps historie*, vol. 2, 1975-1989: *Vekst, vilje og utfordringer* (Bergen 2003), pp. 237-245.

partly reformed – radical domestic forces. Some turbulence was created in the process, but viewed from posterity's vantage point it was basically the continuation of a customary practice: The state encouraged consensus in order to secure a combination of passive accept and active resource mobilisation for the aid programme, thus marginalising a negative attitude towards it.

Outside the group of main partners, that is, for the many donees who received insignificant portions of total grants, it is more difficult to identify a pattern of systematic distribution or historical evolution (Table 2). It is obvious, though, that this section of the aid programme increased its range in terms of geographical as well as economic dispersion of recipients. Denmark acquired a broader international visibility, of benefit to international relations as well as domestic interests. The knowledge of possible present and future business opportunities was better than if these contacts, sporadic as they were, had not been established. A strong and visible presence in specified areas, countries and project sites, was the only way to build consistency as regards the contents and orientation of the programme, and – by the same token – to convince public opinion at home that the disbursement of aid money would leave an actual imprint in the economically poor areas of the world. However, for the Danish corporate sector an extension to wider areas was attractive in order to enhance opportunities. Moreover, the mere possibility of shifting resources out of some countries and into others helped to reduce the imbalance of power resulting from Danish dependence on a few selected partners.

Sectoral composition

The sectoral composition of Danish bilateral aid changed considerably over the years. There was a distinct tendency for infrastructure to increase and for manufacturing to decrease in importance (Table 4). The changes took place largely in accordance with development in international aid doctrine. In the 1960s development policy was widely inspired by the recent historical experience of post-war reconstruction, accompanied by the quantum leap in European growth rates. Another source of inspiration was the grand

narrative, recited in a modern scholarly version by W.W. Rostow,²² about accelerated investment-led growth. This was the *Leitmotiv* of recent world history. It first emerged in England during the first Industrial Revolution, then spread to the Continent, North America and further. In the context of contemporary development aid it was soon realised that bridging the income gap would not be possible for a long time yet, but there was confidence in technology transfer as a primary tool for enhancing productivity, especially by promoting non-agricultural occupations.

At the end of the 1960s, grave doubts arose regarding the aid concept. Aid efficiency was being contested from within by the Jackson report (1969) and Gunnar Myrdal's *Asian Drama* (1968). From outside a fundamental criticism was levelled at the relations between centre and periphery – to use the congenial wording. In academia the instigators of a heresy that soon became doctrine were the increasingly numerous supporters of radical dependency theory.²³ In the general public, left-wing partisans interpreted development problems and military conflicts as the result of a neo-imperialism of which the US was the leading power. Among donor countries a more resigned and less generous attitude began to prevail.

In the Danish debate the frustration with the lack of a genuine breakthrough for Third World development was articulated as well. When the law of development cooperation was to be revised in 1970/71 the different lines of criticism somehow tended to converge. No one actively defended economic growth as the main objective of development aid, but many disputed it. The nexus between growth and increased social welfare was challenged, based on the assumption that an accretion of riches within a community would not necessarily lead to improvement of living conditions for the poor. While this is true in a strictly logical sense the conclusion still seems rather odd and at any rate precipitous, given the fact that the establishment of a stable growth pattern, in the wake of an aid effort or just in any low-income economy

²² W. W. Rostow, *The Stages of Economic Growth. A Non-Communist Manifesto* (Cambridge 1960).

²³ A. Brewer, *Marxist Theories of Imperialism. A Critical Survey* (London 1990), pp. 161-199.

in the Third World, was still only a prospect. Actually, its failure to materialise, not the consequences from its achievement, was the basic problem.

Table 4

Sectoral distribution of new Danish bilateral development aid projects, 1962-1991

Sector:	Periods of initial year of individual projects					
	1962-1971		1972-1981		1982-1991	
	Number	Amount	Number	Amount	Number	Amount
Education	24 %	12 %	14 %	8 %	13 %	4 %
Health	8 %	11 %	12 %	12 %	11 %	5 %
Drinking water & sanitation	2 %	2 %	7 %	12 %	9 %	14 %
Social infrastructure, other*	4 %	1 %	7 %	2 %	11 %	7 %
Economic infrastructure**	7 %	14 %	17 %	16 %	18 %	31 %
Productive sectors	54 %	57 %	41 %	45 %	32 %	36 %
Multisector	0 %	0 %	2 %	5 %	4 %	1 %
Programme aid & misc.	0 %	3 %	0 %	0 %	2 %	3 %
Total	245	3,294	410	5,380	1,049	6,149

* Including i.a. family planning and public administration.

** Including transport, communication, energy and flood control.

Arguably, leading politicians' disavowal of economic growth was a rhetorical detour to permit a reversal of policy without having to admit to the face of the voters that the strategy pursued so far had been futile. Discursively, the dissociation from conventional wisdom implied that igniting the growth engine was really not the problem. People were led to understand that this target had simply been overrated in the past. 'Social development' rather than 'economic growth' must now be brought to the front.²⁴

Behind the scenes the case was not so clear-cut. In the new preamble economic growth was – rather surprisingly after hearing the debate – defined as the immediate purpose of the Danish aid scheme, with the addendum that the ultimate motive was social progress and political independence. It was a framework law and it would indeed have been annoying for civil servants and future politicians if its solitary value-laden passage set economic growth aside as only a secondary or an altogether irrelevant target. When the smoke lifted no restrictions had been imposed on future policy. Growth had been played down, but at the same moment resurrected as an intermediate resource for the new and nobler cause.

Of course, the inclusion of the social dimension was significant in so far as it did reflect new priorities and corresponded with the turn in international aid doctrine towards basic needs.

The change is directly visible in the sectoral pattern of Danish aid. Productive sectors, including market-related services, lost territory. If they are singled out and viewed in detail (Table 5) it becomes evident that especially manufacturing was considerably downsized while agriculture was well able to hold its own. This may have been owing to the fact that cultivation of food fulfils a more basic need, or because farmers are among the poorest and most in need of aid, or both.

²⁴ *Folketingstidende* [records from the Danish 'Folketing' (Parliament)], debate on 17 May 1971.

Table 5

Sectoral distribution of new Danish bilateral development aid projects, 1962-1991, productive sectors only, percentage of all projects

Sector:	Periods of initial year of individual projects					
	1962-1971		1972-1981		1982-1991	
	Number	Amount	Number	Amount	Number	Amount
Agriculture etc.*	18 %	15 %	26 %	25 %	19 %	21 %
Manufacturing etc.*	33 %	36 %	15 %	17 %	11 %	14 %
Trade & finance	4 %	6 %	1 %	2 %	2 %	1 %
Total	133	1,871	169	2,416	333	2,213

* Including forestry and fishing.

** Including mining and building.

The possible advantages of coherent investment were taken under consideration by Danida. General scepticism towards the traditional aid paradigm was based, among other things, on an increasing awareness that isolated projects were difficult to embed in the surrounding community. They might stand as showpieces as long as they were run by the donor, only to grind to a halt and disintegrate afterwards. An attempted solution to accommodate growth and socially oriented purposes at the same time was a more versatile, encompassing and integrated type of projects, connecting specific activities to each other and hopefully laying the basis for future self-support. Deliberations about focusing aid on local areas were eventually realised through so-called multi-sector projects. However, multisector did not prove to be the much hoped for silver bullet. As large-scale enterprises this

form of aid remained restricted to a few experiments, first and foremost the huge Noakhali project, beginning in 1978, named after the rural district in Bangladesh where it took place. It alone accounted for more than half the amount of all appropriations to 48 multisector projects throughout the entire period discussed here.

Generally, there is little evidence of economic growth becoming a neglected target in practice. The significant shift of resources into economic infrastructure indicates that providing a collective physical framework for further investment had high priority. While workshops or factories may come about as the result of private or local initiative, roads, utilities and communication infrastructure serving the individual plants and their workforce can more easily be provided and regulated through public enterprise.²⁵ Also, infrastructure is somehow manageable as an available asset at the disposal of a given community, even if the efficiency of its utilisation is sub-maximal. By contrast, proper production facilities implanted by an outside donor can sometimes be so vulnerable and prone to paralysis in the undersupplied and overregulated economy of a developing country that it is simply not worth the effort.²⁶

The distinction between economic and social is not completely clear. Productive sector-projects may very likely have been increasingly directed towards poor people. By contrast, drinking water and sanitation, an area that enjoyed a significant lift, are evidently of great and direct welfare importance, but at the same time it fulfils an investment function by elevating the value of human capital, that is, the strength and capability of the working force in the area where the said utilities are installed. The same reasoning applies to education and health. Both these latter areas, however, seem to have entered into decline at the end of the period, in the case of education perhaps because the effort of the previous decades had, in effect, been able to meet the most urgent

²⁵ S. Fischer and V. Thomas, 'Policies for Economic Development', in *American Journal of Agricultural Economics*, vol. 72, 1990, pp. 809-814, here p. 812.

²⁶ D. Rodrik, 'Understanding Economic Policy Reform', in *Journal of Economic Literature*, vol. 34, 1996, pp. 9-41, here p. 16.

demands for higher literacy and provision of qualified labour for available jobs.²⁷ Also, there was a tendency for certain donors, for example Germany, to specialise in education, motivating others to leave the field.²⁸

It is worth noting that the share of health and education projects remained on the same level as before if counted numerically. However, in terms of funding volume there was a significant drop during the last decade discussed here. Similarly, the new and upcoming sector of other social infrastructure [than drinking water and sanitation] was made up of relatively small projects. Multi-sector projects seem first to have enjoyed a period of costly experimentation in few large projects (cf. above), only to end up in a position with fairly many projects, but at low average cost. Put together, this indicates that the typical size of projects declined. However, for production and especially economic infrastructure this was really not the case. In the latter field, moving from the second to the third decade, the share of funding increased substantially, relative to the share of projects. It has to be admitted, though, that in general the biggest projects were smaller in size than in the two previous decades (Table 3). This may have been caused by a now more cautious attitude to starting new mega-projects that were equally impossible to finish and to abandon.

To a limited degree it is probably only an apparent result, due to deficient data. No funding newer than 1992 was registered in the database. Since an unknown number of projects pertaining to the preceding decade had not yet been fully financed, they appear less expensive than they probably turned out to be. The same may apply, although not nearly to the same extent, to some cases from the middle decade (1972-1981), not yet terminated in 1992.

The comparison between on the one hand economic infrastructure and productive sectors and on the other hand all other sectors suggests that the programme tended to bifurcate into two distinct operational modalities. A 'harder'

²⁷ L. Pritchett, 'Where Has All the Education Gone', in *World Bank Economic Review*, vol. 15, 2001, pp. 367-391, here pp. 368, 379f, 385.

²⁸ R. C. Riddell, 'The End of Foreign Aid to Africa? Concerns about Donor Policies', in *African Affairs*, vol. 98, 1999, pp. 309-335, here p. 317.

section was dominated by investments of some economic clout in production and infrastructure, while a 'softer' profile can be discerned in the increasing number of small-scale operations. It is not possible to assign index-points regarding the harder or softer nature of each of the several hundred projects, thus permitting the computation of relevant sub-aggregate values. In other words, the inference will remain hypothetical. Nevertheless, it is supported by its congruence with new significant changes in international aid doctrine and policy.

NGOs: the new way to go

In the 1980s – and even more so in the 1990s – NGOs (Non-Governmental Organisations) came to prominence in bilateral development aid. Denmark was no exception.²⁹ Contracting out a share of the scheme to grass-roots organisations relieved the pressure on the state agency and at the same time offered a healthy competition. The advantage of such organisations was a high level of commitment, based on political or humanitarian values, and specialisation in particular policy areas such as gender or environmental aspects of aid. Also, NGOs were capable of manoeuvring more flexibly and independently in the recipient community by their detachment from official diplomacy and by being able to co-operate with local counterparts, bypassing problems with red tape. The drawback of subcontracting to NGOs was a risk of being exposed to rent-seeking opportunism or the occurrence of slack performance due to professional incompetence disguised as well-meaning idealism. In both cases the obvious countermeasure was strict overseeing procedures, in the long run leading to professionalisation and less visible boundaries between official mainstream methods and the alternative.³⁰

The ambition behind smallish NGO projects was to generate a bottom-up dynamism through close contact and influence

²⁹ J. D. Martinussen and P. Engberg-Pedersen, *Bistand – udvikling eller afvikling: En analyse af internationalt udviklingssamarbejde* (Copenhagen 1999), p. 108.

³⁰ J. Healey and T. Killick, 'Using aid to reduce poverty', in F. Tarp (ed.), *Foreign Aid and Development: Lessons Learnt and Directions for the Future* (London 2000), pp. 223–46, here p. 232.

with local agents who were in need of assistance in order to become 'empowered'. The familiar problem of securing 'ownership' – the positive and committed acceptance of a given project by community forces – was probably aggravated by the fact that many small projects in practice depended on key individuals and temporary funding. They could neither become self-sustained and replicate themselves nor rely indefinitely on imported resources the way another ideology-driven enterprise – the Christian mission – had done in the past. Modern secular welfare missionaries and project-makers were thus vulnerable to criticism for failing exactly on what was supposed to be their strong point.³¹

However this may be, NGOs became an increasingly important modality of social agency. In terms of human resources the aforesaid mobilisation of the old left for the cause of development aid formed a recruitment base, allowing NGOs to function as the bridge connecting youthful criticism towards established institutions with integration into the same, as the individuals concerned grew into maturity.

Apart from being the result of this opportunity – offered by historical circumstance specific to the socio-economic change of donor societies – the emergence of a more distinctly visible 'soft and small'-area in the Danish aid programme may also be interpreted as the consequence of a new conception of aid strategy and management within the system itself. In the 1980s, international donor behaviour was being influenced by the disturbing debt problems of developing countries. The principle of conditionality was introduced, inciting LDCs to pursue policies of balanced budgets, deregulation of markets, encouragement of private supply and so forth.³²

³¹ B. Sanyal, 'NGOs' Self-Defeating Quest for Autonomy', in *Annals of the American Academy of Political and Social Science*, vol. 554, The Role of NGOs. Charity and Empowerment, Nov. 1997, pp. 21–32, here p. 30; J. Hailey, 'Ladybirds, Missionaries and NGOs. Voluntary Organisations and Co-operatives in 50 Years of Development: a Historical Perspective on Future Challenges', in *Public Administration and Development*, vol. 19, 1999, pp. 467–85, here pp. 470, 477–79.

³² J. Roberts, 'Thirty-Five Years Later in Development Politics. Have We Moved On, or Just Performed a Minuet?', in *Development Policy Review*, vol. 22, 2004, pp. 483–95, here p. 486.

An important committee report in 1982 recommended that Danish aid, no less than before, should comply with the needs and desires of LDCs as perceived by themselves. This was seen as an alternative and an adjunct to the broader international tendencies: a tighter regime in finance and declining donor enthusiasm. At the same time, however, Denmark did accept conditionality as a legitimate and sometimes necessary course of action. Compliance with human rights and a non-aggressive foreign policy became parameters of inclusion in the Danish bilateral programme.³³ Hence, on a more profound level Denmark should not be considered a dissident within the donor community. Putting it more directly, the self-determination of LDCs and their capacity for rational agency in managing their own affairs was now being openly questioned by donors, including Denmark. About a decade earlier the first notice of impatience had found its expression when it was deemed necessary to channel aid more directly towards the needy. This was not the result of an expressed wish on the part of recipient states, but rose out of a frustration with the inability of these to manage and valorize resources adequately. In the years immediately ensuing upon decolonisation such discourse had been unacceptable; from then on it was voiced ever more openly.³⁴

In the decade of structural adjustment after Mexico defaulted on its debt in 1982, Denmark continued to emphasise the importance of a 'social' dimension, but abandoned the policy of building up and operating large-scale service-providing institutions. Instead, multiple minor initiatives were launched. As this invariably must have been at the cost of scale efficiency, one can hypothesise that micromanagement by donors, as close as possible to the capillary level of the social organism, was the new priority. An obvious motive for this would be a desire to install Danish ideology and know-how regarding social affairs on a grass-root level in developing countries. It is noteworthy that attempts to export The Danish Model were

³³ Petersen, *Europæisk og globalt engagement*, pp. 548, 550f.

³⁴ J. M. Nelson, 'Review. The Partial Partnership: Trends in Multilateral Aid and Aid Coordination', in *International Organisation*, vol. 25, 1971, pp. 79-96, here pp. 90f; O. Mølgård Andersen, 'Sector programme assistance', in F. Tarp (ed.), *Foreign Aid and Development*.

not a new phenomenon. In the 1960s, several large and long-lived projects pivoting on the co-operative business model or cattle-breeding were launched. In the 1980s, focus was shifted to gender-oriented and other types of projects reflecting modern welfare ideology. Only this time the individual instances of the new style in diffusion of Danish culture were kept on a more limited size and expense level. A lower, more realistic level of self-assurance than before produced a need for experimentation rather than rushing ahead according to a preconceived grand scheme. Furthermore, it corresponded with the organisational culture and limited handling capacity of NGOs or NGO-trained experts. Last, but not least, the lesser range of individual projects permitted that the new profile did not jeopardise the continuation of the major part of the programme, with its technical and economic orientation. It was an attempt at opening new roads and mobilising a favourable public opinion at home, but its overall consequences for the scheme were not so massive as one might be lead to believe by current rhetoric.

From the 1990s the institutionally-, civil society- and micro-oriented approach recurred in good governance-projects that likewise were founded on donors' failing willingness to adapt to the existing institutions of recipient states.³⁵

The institutional form of the development project

'Ownership', a recent buzzword in aid circles, is a Newspeak term that at the same time signifies its denotation and the opposite. An aid project belongs to the recipient, but the ownership must be managed in a certain way, determined by the donor.³⁶ This subtlety in present day power discourse should not lead to the belief that aid formerly was embedded in a completely transparent setting. Donor control was being exercised right from the beginning of the Danish aid programme. It was in a form different from now, but no less serviceable for affirming and yet also concealing that he who pays the piper calls the tune. However, as shall be argued in

³⁵ Petersen, *Europæisk og globalt engagement*, pp. 554f.

³⁶ C. Gibson et al. (eds), *The Samaritan's Dilemma. The Political Economy of Foreign Aid* (Oxford 2005), pp. 11–13.

this section, the privilege to decide was not and could not be used to provide the sort of aid for which the sole purpose was to address the real problems of underdevelopment.

At the beginning of the period there were two fundamental ways of financing development projects: state loans and project grants (Table 6). In both cases Danish aid was tied, that is, considerable restrictions prevented the recipient countries from channelling the funds into purchase of goods or services according to their own preference and choice.

Table 6

Funding methods of new Danish bilateral development aid projects, 1962–1991

Form:	Periods of initial year of individual projects					
	1962–71		1972–1981		1982–1991	
	Number	Amount	Number	Amount	Number	Amount
Project grants	49 %	31 %	50 %	52 %	73 %	47 %
State loan projects	48 %	68 %	40 %	42 %	12 %	23 %
Investment grants	0 %	0 %	0 %	0 %	10 %	21 %
Commodity grants	3 %	0 %	10 %	6 %	5 %	8 %
Total	245	3,294	410	5,380	1049	6,150

The purpose of the state loan arrangement was the transfer, to LDCs, of investment goods (embodying new technology). After the first few years, with semi-commercial conditions where issued loans carried some interest, the lack of enthusiasm from LDCs became evident. It was then decided to make the loans completely interest-free and, as before, exempt from payment during the first five years of the stipulated duration of 20 years.

This meant that the grant component was predominant, especially when the high inflation rate of that time is taken into consideration. In fact the loans came in great demand amongst LDCs. Aside from these, the arrangement had yet another target group: Danish industry. The restraining tie on the use of any given loan did not concern its field of application, but the place of acquisition. Development loans implied a massive reflux of funds by the fact that they were intended for purchase of capital goods and adjacent services from Danish suppliers. After some initial pressure from borrowers this principle was modified so that up to 25 per cent of the amount of the loan might be used for local expenses directly connected with the installation of the new equipment. This possibility served as a welcome compensation for the overall restriction. Coverage of local expenses through the loan was tantamount to a direct transfer of hard currency, freely disposable for any purpose without Danish consent.

A drawback for the borrower was the quasi-monopolistic character of the transaction. Presumably, there would not normally be any fierce competition between Danish firms for winning the order. Rather, there would be only one relevant firm to turn to, or a few suppliers would coordinate their offers. It was estimated that prices were elevated by about 20 per cent due to the absence of effective competition.³⁷ This was still only a moderate cut into the real advantage attached to the loan. It should be remembered that the borrower was in a free position either to compare the Danish prospect with other available options in the global market and choose according to the result, or directly accept the Danish loan, thus saving the transaction costs inferred by operating on a more competitive market. Part of the excess price could be written off on this account. In addition, the fact that Danida was underwriting the deal – on behalf of a nation who highly valued her own trustworthiness in international affairs – ought to justify some confidence in the low overall risk level, seen from the point of view of the borrower country.

³⁷ Meeting on 29 Jan. 1973 in special group for evaluation of lending policy, DNA UM 104.Dan.2/1 (box 31); Growth-inhibiting Factors ... (supra), p. 49.

In the 1980s, state loans were phased out of the Danish programme after relative decline already in the previous decade. By now, debt had become an overwhelming problem for the developing world. With the transition to conditionality in the international aid regime, the lending of money under liberal conditions to people who could not pay them back anyway, became an obsolete form and was given up, leaving the extension of credit to the financial system and restricting Danish aid to donations. Some of these were now tied in a new form, namely as what in the table is called investment grants. These were used to transfer the same type of goods that were formerly covered by the state loans.³⁸ Also, the direct granting of input commodities was now an emerging form of aid that might alleviate exactly the lack of currency due to severe indebtedness.

Aid-induced demand flowing towards Danish business was thus held at about the same relative level as always. Still, the Danish Industrial Association was preoccupied with the dismantling of the loan programme. Under the impression of harsher general market conditions following the recession of 1974/75, it had begun to take a greater active interest in alternative outlets. From 1977 the Association changed its engagement in aid policy from relative passivity, working quietly inside the Board for International Development Co-operation, the corporative counselling body, to a more publicly active and oppositional stance, trying to not only defend but to reinforce its position as a primary agent in the material provision of development aid, vis-à-vis the likewise mobilising forces in favour of a stronger direct poverty orientation.³⁹

It was official Danish policy that the untying of aid would be beneficial, but only if adapted by all donors. There is good reason to believe that this more than anything was lip service to an abstract principle. Very likely, the actual untying of aid internationally would have been to the detriment of Danish interests because former colonial powers maintained

³⁸ Petersen, *Europæisk og globalt engagement*, pp. 551f; *Danmarks deltagelse i det internationale udviklingssamarbejde 1982*, p. 34.

³⁹ Petersen, *Europæisk og globalt engagement*, pp. 138f; L. Stampe Brock, *Industrirådets rolle i bistandspolitikken 1962-1985*, M.A. diss., University of Copenhagen, 2006, pp. 67-78.

a competitive advantage by their more extensive networks and the larger range of their operations. Anyway, over the years only little specific criticism from other parties inside Denmark was levelled against the subsidy element.⁴⁰

Rather than this it was the externally induced changes mentioned above that caused the repeal of the arrangement. In terms of control and authority, state loans have been characterised as 'the least patronising aid form' by Mogens Boserup, Danida's first director. He was right in the sense that the transfer of technology embedded in machinery and expert instruction was not socially or culturally invasive, hegemonic or in other ways controversial, provided it was put to rational use. The decision to allocate the funds towards a given end belonged, in the final analysis, to the borrowing country who, up until the moment of commitment, could opt out of the project at any time.

Evidently, the supplier firms' technical expertise, in the form of project managers, designers and production engineers, controlled the actual process, but were doing it as members of a techno-economic *system*, certainly with inherent social values and rationality criteria, but not as policy-makers acting discretionarily.⁴¹ Danida's control opportunity was embedded in the privilege to endorse or not the specific agreements on how to spend the loan amount. This authority was justified by the need to secure that taxpayers' money, contributed through the freedom from paying interest on the loan, was not wasted by irrational or opportunistic behaviour on either side of the contractual relationship between borrower and contractor. Apart from this gatekeeping function, there was no particular need for further control. The whole transaction was defined on the one hand by its strictly technical nature and on the other hand by the balancing of interests through the institutional setup. There was, from the Danish side, a firm hold on the content of each project, depending,

⁴⁰ Olesen et al., *I blokopdelingens tegn*, p. 682; Brunbech, *Dansk udviklingspolitik*, pp. 300, 361, 389.

⁴¹ W. Rammert, 'New Rules of Sociological Method: Rethinking Technology Studies', in *British Journal of Sociology*, vol. 48, 1997, pp. 171-91, here pp. 173-77.

however, not on micromanagement informed by ideology, but on the systemic quality inherent in Western technology.

Grant-based projects constituted a contrast to this model, but was in reality no less tied. As long as the state loan-alternative existed, 'hard' investment-oriented activities of a technical nature were financed mostly by loans, especially if they were on a scale sufficiently large for this to be practically relevant.⁴² On the other hand, education and health projects and other 'soft' investment items had an even stronger bias towards being financed by grants, even though it is not beyond the scope of imagination that, for example, schools and hospitals or health clinics might be considered as physical investments to be financed through loans.⁴³

One explanation for the difference may be that the donor side had a desire to exert a stronger discretionary control over the planning and implementation of soft projects. Another is that the recipient would presumably be not well inclined to accept the more reciprocal and demanding obligation of a loan arrangement – be it ever so favourable as it may in relative terms – so long as the object to be purchased was anything else than a technological package of proven value, capable of generating a proper, measurable return on the investment in the form of a concrete output.

Viewed from the donor side, the project grant is the default model for bilateral aid.⁴⁴ Here, conditionality was not a bold new principle, but an old, established norm. When dealing with a 'soft' project there was no firm technological substance to define its content. Instead this had to be negotiated, becoming – by the same token – informed by values. The absence of the relative ideological neutrality that was characteristic of distinctly technological projects was not necessarily a problem to the donor. It represented

⁴² Over the entire period approximately one quarter of the total project sum in agriculture and manufacturing combined were financed through ordinary project grants. For manufacturing alone the share was 15 %; for economic infrastructure it was one third, with an excessive weighting in the lower end of the size scale.

⁴³ Actually, out of 438 projects in health or education, 18 were financed through state loans. They accounted for DKK 160 million out of DKK 2,375 million, or 7 %.

⁴⁴ O. Mølgaard Andersen, 'Sector programme assistance', p. 178.

an opportunity to propagate socio-cultural norms, not for their own sake, as pure ideology, but because it was seen as the one best way to go about things when attempting to organise and build functional units in society.

This constituted a proper rationale for never conveying any regular independent purchasing power to the development partner *except* within the particular framework of the state loans and the particular type of grants that partly replaced them. Outside of this enclosed area, where intervention could be dispensed thanks to the inherent systems properties of technology, it was more adequate to assume the role of the gift-carrying benefactor who (via his powers to define the art and nature of what could and would be handed over) gained a vantage position. This goes for the initial layout, for the planning and even for the implementation phase. The latter depended on stationed experts with competences that were partly instrumental – in the relatively neutral technical sense – partly belonged to the sphere of social engineering and norm-based management.

Some caveats must be considered. Not all grant aid projects were built on the conviction of possessing a superior Danish model. For example, the running of the training hospital in Kinshasa 1963-1981 (one of the biggest projects in Danish aid history) was indeed carried out on the basis of a total concept where funds, leadership, equipment and expertise was provided by the Danish side and – with the necessary adaptations – according to Danish norms. However, it was not at all imposed on Congo/Zaire as an alien attempt at cultural or economic domination. It was simply a modern city hospital, with the purpose of curing and nursing the patients while at the same time training local personnel to do the same. Available evidence suggests that from the recipient side the hospital was viewed as an asset, only not given domestic priority as agreed. 'Fungibility', where aid substitutes rather than supplements the recipient's own effort, is a common problem for donors.⁴⁵ It may compromise aid efficiency, but does not imply any ulterior motive.

⁴⁵ K. Pedersen, 'Aid, Investment and Incentives', in *Scandinavian Journal of Economics*, vol. 98, 1996, pp. 423-437, here pp. 424, 435-436; P. Hjertholm et al. in Tarp, *Foreign Aid*, p. 354.

Another grant aid project of considerable size serves to illustrate the opposite case, where aid was harnessed to promote Danish values to a proportion that was probably excessive if recipient need were to be put above everything else. From 1972 to 1991, Danida supported a farmer's cooperative bank in Tanzania. The cooperative sector in various countries was the target of several big projects.

It was commonplace that cooperatively owned firms in various industries, based on the active participation of members, played a significant role in Scandinavian modernisation. The model was seen as promising and worthy of support in developing countries too.⁴⁶ At the very start of Danish development aid, a crucial element was a series of international seminar courses on cooperatives, continuing from 1953 to 1968. The cooperative sector in Denmark was well represented on the Board of Co-Operation, in its own right and through important friends. There was an obvious interest in spreading the cooperative gospel around the world. This is not the same as stating that Denmark forced cooperatives upon Tanzania and other countries. The cooperative model was known beforehand throughout the world. It is likely, though, that Danish aid within the cooperative field did not blend into a sustainable, bottom-up, user-supported business environment. The use of project grant aid for purposes of political patronage is a well-known concern.⁴⁷ What if the East African cooperative sector was of slight importance to the 'real' economy, but basically served as part of the political and redistributive infrastructure of the state and the governing party? If this was indeed the case, which is not unlikely,⁴⁸ Denmark, while naïvely trying to make other countries follow her own developmental path, contributed to the upholding of an institution that occupied national

⁴⁶ Olesen et al., *I blokopdelings tegn*, p. 608.

⁴⁷ P. Mosley and M. J. Eeckhout, 'From project aid to programme assistance', in F. Tarp (ed.), *Foreign Aid and Development*, pp. 135f.

⁴⁸ S. D. Mueller, 'The Historical Origins of Tanzania's Ruling Class', in *Canadian Journal of African Studies / Revue Canadienne des Études Africaines*, vol. 15, 1981, pp. 459-497, here p. 489; A. E. Temu and J. M. Due, 'The Business Environment in Tanzania after Socialism. Challenges of Reforming Banks, Parastatals, Taxation and the Civil Service', in *Journal of Modern African Studies*, vol. 38, 2000, pp. 683-712, here pp. 684f.

resources in Tanzania without supplying a corresponding national benefit, as instead rent-seeking agents took possession of the means.

Between these two example-models lies a vast range of intermediate types where the balance varies between on the one hand plain socio-economic value, in terms of either investment or relief or both (e.g. a hospital), and on the other hand the squandering of resources on politically motivated employment. Projects shaped through negotiation and co-management and handed over as gifts were by their very institutional form – even if also beneficial in a utilitarian sense – susceptible to at least some abuse by the parties who acted as agents on behalf of the donor and recipient societies.

Cost and benefit: general discussion

Contamination with motives alien to an unbiased development effort is facilitated by the potential alliance or compromise between the negotiating parties. If, for example, the agents of the recipient accept that the donor gets representation or influence for elements useful to either the international branding of his country or diffusion of his cultural and social norms, they could with more ease expect tolerance of a dead weight of state- or party-dependent clients living off development projects. Evidently, such an understanding could not be articulated in the agreement – nor would this be necessary, as its potential resided tacitly in the institutional setting.

Even if the dubious institutional character of the mutually negotiated grant aid project is seen as merely a hypothesis, it is reasonable to ask how and why such a state of affairs might possibly be accepted by 'principals', that is key decision-makers with ultimate responsibility. There is a discursive side to this question. The contrast between the basic motivation for providing aid and the risk of deviation when carrying out the idea in practice is so glaring that it is all but impossible to integrate both sides, the ideal as well as the grim reality, in public discourse. The necessity of silence or at least of phrasing the problem in very cautious terms could divert attention and distort proportions, even for those in charge politically.

Secondly and more importantly, the utility value for a donor state of even a considerably sub-optimal aid scheme may be imagined to exceed its cost, making it possible to rightly justify its existence. A large enough number of well-satisfied stakeholders can build a consensus.

From the recipient's point of view the net social effect of aid under the terms stated above is doubtful. An important liability to account for is the fact that aid can attract disproportionately large domestic resources that consequently will be absent and wanting in places where they could have been put to better use. Specifically, if aid contributes to the upholding of clientelism then not only manpower and capital in some definite amount are diverted, but also the incentive structure of the economy as a whole is negatively effected in the recipient country.⁴⁹ Of course, this may be entirely or partly offset if aid after all has a positive impact – the present discussion concerns only the negative effects that are *latent* in a certain institutional form.

Turning to the donor state, the probability of a positive outcome is much greater. Fundamentally, there is, from the point of view of a right-minded, conscientious administration, the same basic interest in achieving a positive result in real developmental terms as there is for the citizens of the recipient society. However, where the recipient with some reason can worry about negative externalities of aid, the donor may hope for positive ones. A part of aid expenditure will flow back into the domestic economy as demand. This applies to the transfer of technological equipment and consultancy as described above. Besides the multiplier effect of such restored purchasing power, development contracts may have a nurturing effect in teaching suppliers how to operate in relation to a Third World market. Such lessons are useful even outside the protection of the aid umbrella. The reverse side of this medal is of course the potentially negative effects of subsidy on general competitiveness.

The benefit of a return flow of demand is not the sole privilege of 'hard' industry. Material and immaterial components

⁴⁹ P. Mosley, J. Hudson and S. Horrell, 'Aid, the Public Sector and the Market in Less Developed Countries', in *Economic Journal*, vol. 97, 1987, pp. 616-41.

may of course be purchased other places than in Denmark or in the region where the project is to be realised. In practice, however, the weighty salary costs are likely to be paid out to Danish citizens working as administrators or experts. On the whole, a very considerable part of Danish bilateral aid was spent domestically. As far as this major portion is concerned, the financial strain from granting aid was largely opportunity cost, that is, the collective consumer surplus forgone by renouncing any alternative use of the funds.

This cost, spent to the – possible – benefit of citizens in the recipient society, is certainly not negligible, but might be partly regained through positive externalities. Besides receiving profits and salaries for their effort, industry as well as directly employed professionals were in a process of training: acquiring and honing their skills in dealing with an environment different from their own.

Decades ago the future utility to be derived from such learning processes was difficult to conjecture. Today it is still not possible to quantify it, but the advent of globalisation indicates that this investment in human capital was very much worth the while. Even if this could not be anticipated when the bilateral scheme took off, or even later, there was nevertheless, already at the point of inception, a strong motive present to an almost similar effect. Aid was perceived as a platform for Danish firms and their products to become better-known and higher in demand in foreign markets, even the distant ones. Finally, there was an immediate international political advantage in running an active bilateral aid scheme. By the very possibility of shifting resources from multi- to bilateral or *vice versa* the bargaining position in international assemblies and organisations was likely to be strengthened. Also, having hands-on experience through aid workers in Danish rather than UN employment could, by preventing gross information imbalance, add to bargaining resources.

Hopefully, bilateral aid has provided some real development. If there were an overall negative impact on economic and social development in LDCs it would be a tragedy. But if just some positive results have been gained on site, in real terms, then even gross inefficiency in the mechanisms of transmission and utilisation can be tolerated and the scheme carried on, based on rational motives.

Summary and conclusion

Danish bilateral aid strategy had a double edge: on the one hand it was narrowly focused on a small number of high priority recipients, absorbing the major part of the aid flow. On the other hand, there was a dispersion of a minor share of the money over a large number of countries. A strong and visible presence in certain areas, countries and project sites was the only way to build consistency as regards the contents and orientation of the programme, and – by the same token – to convince public opinion at home that the disbursement of aid money would actually leave an imprint. However, for the Danish corporate sector an extension to wider areas of the world was attractive. Moreover, the mere possibility of shifting resources out of some countries and into others helped reduce the imbalance resulting from Danish dependence on permanent cooperation with a few selected partners.

Even the distribution pattern of the *size* of the individual projects involved a dichotomy. Relatively few large projects consumed a large share of total expenditure while at the same time disproportionately many projects were below average value; a good part of these were indeed very small. Again, two different sets of considerations might justify this: On the one hand, large volume investments were making 'imprint'; they were relatively easy and cheap to handle in terms of internal logistics in Danida; and they were more economically important and meaningful to recipient states and Danish business circles alike than small projects were. On the other hand, small projects constituted an important field for gathering experience, showing the flag and mobilising and training new aid workers and securing the support of the NGO- and related environment.

The sectoral composition of Danish bilateral aid changed considerably over the years. There was a distinct tendency for infrastructure & utilities and 'soft' social infrastructure to increase and for manufacturing to decrease in importance. Sectoral changes appear to have taken place in accordance with developments in international aid doctrine. However, the overall balance between on the one hand 'hard' capital- and growth-oriented projects and on the other hand 'soft' small-scale interventions in local social life, pivoting on issues of equity and empowerment of the weak, does not seem

to have changed as much as might be expected from the change in aid discourse.

For maintaining control when executing aid projects, Danida relied on the difference between two main modes of financing them. Loans granted on liberal terms – later on outright grants – tied to contracts with Danish national firms were the typical way of financing capital goods. In these cases the strong physical embodiment in machinery and equipment would determine and stabilise the purpose and nature of the project. 'Softer' projects, with a high element of direct human assistance, would be handed over as pure 'gifts', leaving the question of the right to dispose of the details of the project in a grey area. The Danes were thus supplied with a tool for promoting preconceived opinions based on national values that were sometimes inadequate in the face of local needs and possibilities. Even when Danida resisted this temptation the bargaining model was problematic as its reciprocal nature made donor authorities as well as on site experts vulnerable to weak commitment or opportunistic agency on the part of the recipient.

These weaknesses notwithstanding, the evidence presented may help to explain why Danish bilateral aid has been given high priority over four decades. A relatively stable, autonomous model is discerned. One of its most striking features is the way resources were allocated with appeal to different groups of stakeholders, with the common purpose of incorporating them in aid as a national project. In terms of interest groups the focus in this article has mainly been on business and NGOs, but the very diversity and adaptability of the aid scheme implies that also large groups of professionals were involved either as direct participants in an expert role or as managers and consultants in Denmark. Even before NGOs had large significance a more popular scope was achieved by a Volunteer Service Programme that it has not been deemed reasonable to include in the present discussion.

By financing the Danish bilateral aid scheme some economic resources were definitively and unambiguously diverted from national circulation. A part of the total cost, however, was paid as factor income to Danish firms and workers employed here or in other organisations and institutions involved in aid. Against the alternative consumption

or investment that was immediately renounced by granting aid must be weighed

- The multiplier or ripple effect of aid expenses defrayed in Denmark.
- The PR and political value attached to the granting of aid.
- The value of collective and individual, future-oriented learning through participation in aid.
- Danish citizens' cultural benefit from outward contact.

Taken together, the independent compensations and advantages of granting aid provided a discount on expenses that made the choice much, much easier than it would have been, had the decision rested solely on the essential question of whether aid to any significant extent would contribute to the actual overcoming of development problems.

Appendix

On the calculation of project values.

Svend Joensen, MSc (Econ), is gratefully acknowledged for having designed the discounting formula presented below. His work also includes the calculus (not shown here) that leads from desired properties to the applicable formula.

All tables in this article were calculated on the basis of information from The Danida Project Database, cf. note 1 to text. Most data were used in the form in which they appear in the database, but the total value of each individual project is the result of a series of manipulations.

The database reveals the total appropriation, measured in current prices, and the years of the beginning and end of each project. In order to estimate project cost in a form that permits comparison between individual projects and – as in this article – sub-aggregates of the same, differences in price level and project duration must be taken into consideration.

Each project was attached to its year of inception under the – unrealistic – assumption that all appropriations were

made and used this year. Subsequently, given the fact that prices actually followed a rising trend, correction was made for the number of years each project was underway, consequently being subject to devaluation.

Formally and technically, discounting for project duration was done in the following way:

$$U_0 = TU \frac{r}{(1+r)^T - 1}$$

U_0 represents the discounted value of any individual project, attached to its year of inception. T is project duration and U is the nominal value of the project, that is, total appropriation in current prices, prior to any further considerations. r is the discount rate, uniformly applied across all cases, regardless of their position on the timeline. Its value is 9.5 %. It was calculated on the basis of the difference across the period between Danish GNP measured in current and fixed prices. Inflation was indeed high for a considerable part of the period in question; however, if consumer prices had been used instead, the rate would have been lower. The applied rate thus represents a rather radical practice of depreciation.

Following this manoeuvre, an ordinary transformation from current to fixed prices was carried out, using the same GNP-implicit index as before, only now of course using the specific values pertaining to each year. Regarding the general properties of the index as a measure of inflation, the same remark as before applies.

Evidently, the result of this procedure does not correspond exactly, nor does it with a uniform degree of precision, to the 'real' value of projects. As the individual values are estimates, therefore the summing up of the cases in the tables of this article are also estimates.