A Guidance Note on Country Exit from Bilateral Development Cooperation

Introduction

Development cooperation is by nature temporary – and therefore in principle, exit strategies should be developed alongside entry strategies, whether for countries, programmes or projects. Focus on the issue of exit is warranted – not least since more exits may be expected due to fundamental changes in the global framework for international development cooperation. First, a number of developing countries have successfully climbed their way to middle-income status, implying that more countries will graduate from development cooperation. Second, the emergence of 'innovative' financing mechanisms, where public and private sources of financing and technology transfers are blended, often include an exit strategy and/or sunset clause as part of the design. Finally, aid policy is now coupled to foreign and security policy concerns, and development cooperation has increased within politically unstable countries, which may induce more exits due to concerns of high security and other risks.

This note is focused on country exits from bilateral development cooperation and targeted to the managements of Danish representations responsible for exits from development cooperation. The purpose of the note is to present some of the key considerations involved and to indicate ways to minimise the transaction costs of exiting for both partners. In a constantly and fast changing environment for development cooperation, it is perhaps an illusion to seek clear guiding principles for exit strategies. Nevertheless, a number of similar issues arise when phasing out of development cooperation – and some of the main lessons from experience provide useful sources of inspiration for managing exits. In this note "exit" and "phasing out" are used interchangeably, defined as a process through which a development partner withdraws its bilateral development cooperation from a country within a clearly established period. Exits from individual sector/thematic programmes are guided by the 'Guidelines for Programmes and Projects'[1], but may also benefit from some of the considerations in this note.

Although issues of exit from development cooperation are more pertinent today, limited information is available on lessons learnt and best practices, both internationally and in Denmark. The joint evaluation of exit experience by Denmark, the Netherlands, Norway, and Sweden from 2008[2] continues to stand out, providing well-documented experience of exiting from development cooperation from five countries, including Botswana, Eritrea, India, Malawi, and South Africa. To supplement the evaluation, this note mainly focuses on drawing general lessons from Denmark's practical experience with exiting from priority countries. For the most part, relevant information is drawn from Danida's project database and internal reviews. In addition, interviews with management staff responsible for the exits complement available data for some of the most recent experience, including Danida's exits from Benin, Nicaragua, and Zambia that are briefly reviewed in Annex 1. Annex 2 contains practical guidance with focus on financial management, based extensively on the plan

[1] / "Guidelines for Programmes and Projects above 35 mill DKK"; Danida, March 2014, http://www.amg.um.dk

[2] / "Managing Aid Exit and Transformation: *Lessons from Botswana, Eritrea, India, Malawi and South Africa*", Joint Donor Evaluation: Danida, The Netherlands Ministry of Foreign Affairs, Norad, and Sida; available at: http://www.sida.se/exitevaluation

developed by the Danish representation in Benin in 2011. Finally, a brief list of the most relevant literature on exit from development cooperation is provided in Annex 3.

1. An Exit Typology – guiding actions on the ground

It is clear that above all, context matters in setting the framework for planning and managing an exit. Key factors in the partner country, including the macroeconomic situation and the level of aid dependency, determine the framework for bilateral relations concerning development cooperation. Furthermore, the communication about the exit decision and Danida's role in the partner country play important roles for the actual management of an exit.

The following 'types' of exit are determined by the rationale for exit and a combination of economic, governance, and security factors:

- Exit as a transformation of relations. The main exit objective is to secure Denmark's reliability as a partner and the achievement of expected results with a view to strengthening other bilateral relations by developing or expanding political and/or commercial cooperation;
- Exit as part of administrative down-sizing, reducing the number of priority countries. The main exit objective is to secure achievement of the outputs envisaged within a given time period;
- Exit as crisis management. Characterised by insecure conditions and/or strained diplomatic relations. The exit objective is to wind up orderly, but as quickly as possible.

In the communication about decisions to exit, one or more of the following explanations for the decision to exit are commonly used:

- The graduation argument – the recipient can manage without bilateral aid (e.g. with reference to Denmark's BNP country limits), which refers to the partner country reaching 'middle income' status;
- The 'revised criteria for selecting partner countries' argument – based on e.g. calls for fewer partner countries and fewer sectors to enhance aid effectiveness, and commonly used to implement changes in the total volume of bilateral development cooperation;
- The governance argument – the recipient is disqualified due to violation of good governance standards. Such standards are often included as 'underlying principles' for development cooperation[3];
- The mismanagement argument – the recipient is accused of mismanagement of aid; and
- The security argument – the recipient is disqualified due to costs of security increasing beyond acceptable levels.

In response to the above, a number of different ways of phasing out can be distinguished, including:

- Cancellation of agreements: just winding up administratively;

[3] /See e.g. "The future of budget support to third countries, section 4.1", Green Paper from the Commission to the Council, the European Parliament, the European Economic and Social Committee, and the Committee of Regions, COM (2010) 586 final, Brussels 19.10.2010

- Accelerated phase-out: attempts to advance the closing date and/or frontload disbursements. Natural phase out: adhering to agreed plans;
- Phase-out within a given period with a focus on achievement of outputs; or
- Enhanced use of delegated cooperation, allowing Danida not to exit but to manage relations from abroad. Although this does not constitute an exit from development cooperation, direct bilateral engagement is withdrawn and bilateral relations are significantly reduced. Thus, such a decision includes many features similar to an exit.

Obviously, the partner country context plays a key role in determining the way of exiting. This includes issues such as the interest in developing bilateral relations other than development cooperation, notably the existence of commercial opportunities, as well as Denmark's role in the financing architecture, notably in countries with high dependence on official external flows and with a limited number of development partners. It should be noted in this context that, although the concept of aid dependence is widely used, it is seldom defined. This implies that in some countries that are characterised as aid dependent, other sources of financing may be equally or more important than official development assistance. As such, it can be difficult to determine when a country is considered to be dependent on the flows of official development assistance[4]. This emphasises the importance of framing the exit strategy in the context of macroeconomic developments, as well as both private and public external financial resources.

Figure 1 sketches out a typology of Denmark's experience from a number of exits in the past, including three recent cases (Benin, Nicaragua, and Zambia) that are briefly reviewed in Annex 1[5].

The decision to exit from bilateral development cooperation is always political and is almost always governed by political considerations in the funding country. Examples of Danida's past experience with exiting from priority countries are included in the figure. It is evident that there are overlaps between some of the categories used, as there is seldom one single rationale for exiting from development cooperation with a country. Note that the years mentioned in brackets indicate the year of the exit decision and the last disbursement of development cooperation under the country frame, respectively.

[4]/ "Aid Dependence. Issues and Indicators, p. 10-13", Robert Lensink and Howard White, EGDI 1999:2
[5]/ Brief review of Danida's experience with exiting from development cooperation with Benin, Nicaragua, and Zambia, which were all decided in 2010.

Figure 1: Exit Typology – guiding the phase-out process

Type of Exit	Explanation	Partner Country Context	Realised exit
Exit as transformation of relations	The "Graduation" argument: the recipient can manage without development cooperation	Opportunities for Danish business are substantial *Examples: Vietnam (2008/2015), India (2000/2005)*	Phase-out over long period with focus on sustainability and gradual phasing-in of commercial relations; Representation remains
		Limited opportunities for Danish business *Example: Bhutan (2011/2014)*	Natural phase-out with no specific measures or transition; focus on sustainability; Representation closes
Exit as part of administrative down-sizing with closure of representations	The "Revised Criteria" argument: the criteria for selecting partner counties are changed, e.g. geographical concentration	With a limited number of development partners and limited private financial flows *Examples: Eritrea (2002/2005), Benin (2011/2014)*	Phase-out within a given period with focus on achievement of outputs
		With many partners and/or access to other sources of financing *Example: Zambia (2011/2013)*	Phase-out within a given period with focus on achievement of outputs. Commercial relations not much developed
Exit as crisis management	The "Governance" argument: The recipient is disqualified due to perceived violation of e.g. basic democratic and human rights standards	With a limited number of partners *Example: Nicaragua (2010/2011)*	Accelerated exit with attempts to advance the closing date and/or frontload disbursements
		With many partners and continued bilateral relations. *Example: Zimbabwe (2002/2003)*	Accelerated exit with no frontloading but with possibilities of re-entry
	The "mismanagement" argument: The recipient is accused of mismanagement of aid	Wide-spread corruption and unwillingness to handle specific corruption cases appropriately *Example: Malawi (2002/2002)*	Cancellation of contracts, just winding up administratively. No focus on sustainability
	The "Security" argument: Security deteriorates substantially, costs of security beyond acceptable levels	Fragile poor country with security problems and a limited number of partners; no full exit *Example: Niger (2013/2014)*	Programme 're-designed' through delegated cooperation

Source: Review of various Danish exits from priority countries based on the joint evaluation (op.cit.), internal reports, and interviews with staff.

2. Strategic Considerations

Good and orderly exits are difficult to achieve. Good examples are available, although mostly in countries, which no longer depend on aid and have the capacity to take over, both financially and technically. Successful exists typically require a realistic period, careful and mutual planning, consultation, and flexibility. A number of positive exits have been documented in countries no longer dependent on aid, e.g. India and Botswana. In these countries, the governments to a large extent had the resources and the capacity to take over activities and foot the bill, although the scope for trying out innovative approaches suffered. Exiting from development cooperation also had the positive consequence of enhancing local ownership.

In poor, aid-dependent countries, the overall picture is less positive and, as noted above, in some cases exits have had highly negative consequences. In line with the logic of intervening in the first place, all efforts possible should be undertaken to ensure the least harmful effects on the target group, i.e. the poor and vulnerable. While limiting the transaction costs of partners in the exit process is clearly important, minimising the harmful effects on the poor should override any other concern.

Another important objective of any exit process is to ensure the achievement of the anticipated outputs from the support provided. In Danida's recent "Guidelines for Country Programmes"[6], focus on sustainability has been strengthened and consideration of exit strategies is explicitly included, thus establishing a link between entry and exit. As noted, 'an exit strategy should ideally be part and parcel of the development engagement strategy and inform the sustainability analysis. The earlier the issues related to a phase-out are addressed, the better the chances of ensuring sustainability of the achievements' (p. 34). In most cases, however, it is neither practical nor feasible to discuss options and timelines for exit in the dialogue with partners at entry. Rather, the issue of sustainability should form the focus of the dialogue right from programme preparation, throughout the implementation phase, and into the planning for phasing out or exiting the support. In line with this, an overall rule of thumb when designing an exit is to consolidate and sustain rather than expand existing support, and only venture into new areas of support if they fit properly into the desired transformation of the partnership.

Once the political decision to exit has been made, management of the exit process should be guided by a plan or strategy. Denmark's partners should be consulted on this plan to ensure that it is realistic. The specific country context at the time of the exit decision is critically important in determining strategic options in the exit strategy. A good strategy should be based on an analysis of the role of development cooperation in general in financing a country's development, Denmark's role within this architecture, and the rationale for the Danish exit. In reality, an exit strategy is to a large extent determined by Denmark's role in the architecture of development cooperation. A clear focus on the rationale for exit and the objectives sought in the exit strategy is key in ensuring timely and clear communication to all partners. Exit plans should be based on the concept of partnership and mutuality[7]. Obviously, management plans will vary widely – depending on the objective(s) of an exit.

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[6] /"Guidelines for Country Programmes, section 4.1", Danida, July 2013, http://www.amg.um.dk

[7] /"The Paris Declaration on Aid Effectiveness (2005), section II on partnership commitments: mutual accountability", OECD/DAC, 2005 available at http://oecd.org/dac

The overarching conclusion from experience is that exit takes time. Based on experience, an orderly exit takes 3-5 years – typically, a minimum of three years is required for a full exit from an aid-dependent country, in which there is limited interest in strengthening and expanding wider bilateral relations. In countries where there is strong interest in expanding e.g. commercial areas of cooperation, often more time would be required – such a transformation of relations would typically take a minimum of five years to mature, obviously depending on the extent to which other bilateral relations have been phased-in at the time the exit from development cooperation has been decided. The transformation of Denmark's relations with Vietnam, a process conducted over about 8 years, presents an example of best practice[8].

Experience shows that seeking sustainability by handing over responsibilities to other partners – whether other development partners, NGOs or private sector actors – is often a time-consuming process. Sufficient time is needed when seeking alternative sources of financing to continue the activities initiated or, if this proves unsuccessful, when reducing the transaction costs by only gradually reducing the level of specific activities. The 2008 evaluation found that plans for phasing out development cooperation were extremely rare in past exits (for all development partners in the evaluation)[9]. Recent Danida experience from Benin, Nicaragua, and Zambia is very different, however, as pointed to in the brief reviews in Annex 1. In these cases, strategies have explicitly focused on maintaining Denmark's reliability as a partner, as well as ensuring a smooth handing over to other partners and/or a gradual reduction in activities financed by Denmark.

Taking the time required for an orderly exit may be at odds with a need to demonstrate political action. While it may appear expedient to demonstrate quick and resolute action once the political decision to exit has been made, the reputational cost may be high. As the 2008 evaluation clearly documented, Denmark's exit from Malawi demonstrated that the costs to partners of a disorderly exit can be very high. When Denmark exited Malawi in 2002, all attention was on closing down and cancelling contracts, as well as other administrative procedures – which enabled an exit within six months. Commitments and management of relations with recipients were not given due attention, which caused substantial damage. In particular, the withdrawal of Danish funding for the agricultural sector, where Denmark acted as lead partner at the time and had been instrumental in the development of the Malawian Agricultural Master Investment Plan, caused a major set-back in the development of the sector. As noted in the 2008 evaluation, "the sudden withdrawal by Denmark as a lead donor in the agricultural sector sent misguided signals to the donor community. Owing to Denmark's exit, including technical assistance personnel, the planned sector investment plan never really took off and the negative consequences were devastating in terms of missed opportunities on a large scale"[10]. Danish funding constituted about 40 % of budgeted financing for the sector and it proved impossible to secure other sources of funding for the sector. Furthermore, "Denmark's sudden exit meant that extension workers and local smallholder associations lost credibility in the eyes of farmers"[11], which caused very real damage to poor farmers in Malawi. The reputational costs to Denmark were substantial,

8/ "Assessment of the strategy for phasing out traditional development cooperation between Vietnam and Denmark", Technical Advisory Services, Ministry of Foreign Affairs Denmark, Hanoi August 2009 (Internal Report)

9 /"Managing Aid Exit and Transformation, Summary Report, p.3-4", op.cit.

10 / "Managing Aid Exit and Transformation" op.cit., p. 195.

11 /"Managing Aid Exit and Transformation" op.cit., p. 196.

both at home and abroad. A solid lesson from this experience is that merely fulfilling legal obligations is far from sufficient to secure an orderly exit. Commitments must also be fulfilled and due attention must be given to securing other sources of financing and/or a gradual winding down of activities.

Also, the option of accelerated exit, advancing the closing date by front-loading disbursements, is not recommendable. One reason for this is the fact that Denmark would still be obliged to monitor the use of the funds disbursed and the outputs achieved and would therefore essentially not be able to close the programme earlier.

Heeding the lessons from past experience, development cooperation has become more robust in recent years. With increased engagement in countries in fragile situations and conflict, however, the risks have increased of a sudden and quick phase out, prompted by a deteriorating security context and/or political turmoil. Such situations would obviously impede orderly exits. This stresses the importance of using regular analyses of political developments to inform the risk management framework for development cooperation, with key attention to contextual risks[12]. Where these point to an enhanced risk of having to discontinue the cooperation at short notice, the project and programme design should take this into consideration and give preference to modalities that are more likely than others to keep the transaction costs of exiting relatively low. This i.a. goes for basket funding with other development partners, delegated cooperation, and the use of multilateral organisations as instruments of implementation. This would imply that already during preparation, increased attention should be given to limiting the spread of activities (both geographically and sector-wise). While reducing transaction costs, such arrangements will limit the options for Denmark to pursue its own approach and objectives to development cooperation, including the transfer of Danish technologies. Thus, careful balancing between Denmark's objectives and contextual risks must be pursued.

Aid modalities and alignment

The different aid modalities used in country programmes obviously influence exit strategies, and the choice of aid modalities reflects to a large extent the specific country context. In most aid-dependent poor countries, a significant share of development cooperation is in the form of sector or thematic programmes, with financial flows to broad sector reforms supported by capacity development and technical assistance. With increased focus on alignment, many development activities are now integrated in, or in line with national strategies, plans, systems, procedures, and capacities. Such aid forms an integral part of core government operations in recipient countries, which implies that exiting from development cooperation has a very direct impact on government plans, budgets, and available resources. Therefore, securing other sources of financing, whether from domestic resources or other external flows, becomes important in achieving an orderly exit.

As the business environment is improving in many development countries, also in poor, aid-dependent countries, other aid modalities are becoming increasingly important. 'Innovative' financial instruments, where public and private financial flows and transfers of technology are mixed, are increasingly used to fund infrastructure development and development of the private sector in recipient countries. Such modalities are not in focus in this note, but they

[12] /"Guideline to Risk Management, p. 12-13", Danida, August 2013, vers. 1.0 http://www.amg.um.dk

should always have built-in sunset clauses and/or exit strategies for public financiers/development partners in line with good international practice.

Partnership
All exit strategies and plans should be developed in consultation with relevant national partners. The consultations should cover overall aspects of the country programme and of each specific sector/theme. At the sector level, key factors to consider include funding volume and technical assistance to institutional strengthening processes. Note that context also matters at the thematic level. If, for example, Danida is covering a major share of the sector budget in a given area of intervention, it will be particularly important to consider how to cover the shortfall or adjust objectives and deliverables to the new resource envelope. The funding envelope to civil society is often a particular challenge, as it may be more difficult to cover the shortfall of financing – in such instances, transitional funding schemes, focused on organisational adjustments and/or alternative sources of financing, may be warranted under the country programme.

Planning and involvement of stakeholders is a key requirement for success. Once the decision has been made and the official communication of phasing out conveyed, it is essential that different stakeholders are involved in a timely manner. This includes the overall level of country and thematic programmes, as well as all partner institutions and stakeholders involved with these. Stakeholder involvement implies consultation with the appropriate senior level of the partner government and direct counterparts in state and non-state agencies. The consultation should address strategic as well as operational issues in the phase-out process.

Commitment budgeting
Danish resources are predominantly managed on the basis of commitments, and from 2013 most bilateral development cooperation has been committed in the form of relatively few but large country programmes with a three-to-five-year time horizon. This implies that once committed, programmes are relatively shielded from changes in the resource envelope available for development cooperation. From an exit perspective, this reduces the risk of any abrupt discontinuation of programmes.

3. Emerging Principles

Preparation of an exit strategy should be guided i.a. by the following key questions linked to the specific partner country context:

- Which country agreements and agreements with fellow development partners will be affected by the closing of Danish-funded activities?
- Could funding of continued support be obtained from other sources?
- How should capacity be ensured to sustain the activities supported and/or to uphold achievements?
- Is there a need to refocus capacity development activities in the remaining funding period in light of the phase-out?
- Should reallocations between thematic programmes be undertaken in order to ensure certain results before completion?
- What is the communication strategy? Note that it should include a common message to development partners and beneficiaries.

- Should specific communication efforts be considered in order to facilitate dissemination of lessons learned and results obtained?
- Should the specific plan of closure be endorsed in the local management arrangements?

The following list provides an overview of guiding principles, based on recent Danida experience:

(1) Communication and documentation

While the decision to exit is (most often) final and should be considered a 'fait accompli', it is of utmost importance to ensure that the partners involved in the cooperation are informed of this decision by the management of the Danish representation. Proper and timely communication to all partners is of critical importance to successful exits. This involves all partners and stakeholders – including senior politicians and government officials, other development partners, and stakeholders at all levels. Decisions on phasing out and transitions should be well and timely communicated, both internally and externally. Overall, communication is so essential that a specific communication plan should be prepared for how, when and who is responsible for conveying information on the exit decision in a clear and consistent fashion. A pragmatic and subtle approach must be pursued, with timely communication at relevant levels, to ensure that the cooperation can be maintained at a high level in phasing-out or transition periods.

Documentation of results should continue to be undertaken at various levels. One level is the specific programmes being phased out, with the programmatic monitoring and evaluation frameworks serving as a key source of information. Another level is a results overview of the full period of assistance provided. The documentation of results is part of the programme completion reporting process and should feed into internal organisational learning in Danida. It could also be used in a public diplomacy perspective in the exit country and in Denmark, including overall objectives of and results from the Danish engagement, total costs, target groups, and time frames.[13]

(2) Context matters

As noted above, the context in the partner country matters in important ways for how an exit from development cooperation can best be handled. Thus, the exit strategy should be based on the specific context, using e.g. the typology outlined in section 1. This involves the overall macroeconomic and governance environment in the country (dependence on aid, other sources of foreign financial flows, national strategies and commitment to these, commitment to good governance principles, security, etc.), as well as the role of Danida in the architecture of development cooperation in the country prior to phasing out (sector distribution of aid, size of financial flows to different sectors, level of technical assistance provided, lead role, number of development partners, etc.). All these factors are included and considered in the country policy papers guiding Denmark's entry – and are essentially equally important in guiding Denmark's exit from development cooperation.

[13]/ The Danish representation in Managua made a deliberate effort in this regard, e.g. through production of "una vida de Amistad, 30 anos de cooperacion Danese en Nicaragua", Danida 2012 (CD-rom)

(3) Intervention logic

Country programming provides the opportunity of ensuring that all Danida-funded programmes have a good exit strategy built into their planning. In theory, it is good practice to plan for the closure of a programme from the outset in order to ensure maximum impact of the intervention and sustainability of both outcomes and capacity in partner institutions. In practice, however, this is not feasible, as all efforts of both recipients and Denmark are on building up relations. Rather, the issue of sustainability (both financial and technical) should feature prominently and be given due consideration in preparation and implementation of the country programme. As such, exit strategies are not a substitute for good sustainability considerations. It is therefore recommended that development of an exit strategy takes precedence once an exit is imminent – at which point all efforts should be geared towards consolidation, rather than venturing into new initiatives.

(4) Develop exit plan

Develop a clear plan – and stick to it. An exit plan is not only useful to guide the process but also for communication purposes, providing clarity for both partners and staff. It is important to build in the necessary (and realistic) time to ensure maximum alignment and a smooth transfer of responsibilities to recipient institutions. It is also critical to allow the partners sufficient time to adjust to the exiting of a development partner. This will enable the partner to factor in the decline in resources or to seek resources from other partners to fill in the gap.[14] At the very least, a particular emphasis should be placed on "do no harm" in short-term exits. Proper management is required to ensure timely communication, elaboration and monitoring of strategies and follow-up processes, involvement of stakeholders at different levels, etc. Obviously, the senior levels at the representation have a key responsibility and authority to ensure that this takes place. This management process should be guided by country-specific pre-exit assessments.[15]

(5) Respect legal obligations and commitments

It is important to fulfil ongoing commitments, especially in aid-dependent countries. Respecting legal obligations is not sufficient. As part of the aid effectiveness agenda, commitments are included in partner government planning and budgeting processes and thus, partner institutions are negatively affected if such commitments are not adhered to. In general, frontloading of disbursements should be avoided in an effort to quicken the exit. Continued engagement and disbursements during the period committed is important for a successful exit, which includes not only financial support but also the associated policy dialogue and technical assistance that should be supplied during the commitment period. This implies continuation and/or only gradual reduction of staff resources.

(6) Be flexible

Exit plans must be adhered to and not be subjected to frequent changes. Such plans, however, must also be sufficiently flexible to allow for partnership and mutuality. This is considered to be a precondition for a successful exit. Ideally, an orderly exit should be decided and announced in line with the programming cycle, which would allow for full implementation of commitments and monitoring of results. If decided out of sync with this

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14/ Again analyzing the country contexts is important. E.g. the phasing out by several development partners from Botswana was mitigated by a simultaneous increase in diamond revenues.

15/ One example includes the transformation process in Vietnam, as noted in the "Assessment of the strategy for phasing out traditional development cooperation between Vietnam and Denmark", op. cit.

planning horizon, it is much more cumbersome to transform the country programme in the light of the needs of the exit plan. Additional flexibility should be considered, including the possibility of substantially reallocating financial and other support within the country programme, in agreement with partners. If required, new appropriations for transitional support could be considered, although only in exceptional circumstances. This could be warranted in some cases, e.g. to allow civil society organisations to secure other sources of financing. If other sources of funding cannot be found, allowing for a gradual reduction of activities and resources will reduce the transaction costs for the partner.

Once agreed, it is important that any modifications to the plan are only made by mutual agreement between the partners. Modifications could be warranted by adverse external events. While Danida can do its level-best in cooperation with its counterparts to plan for the exit, the implementation of the plan might be constrained by global or national context factors. If, for example, the exit is undertaken during a global economic recession or a dramatic drop in the prices of a given natural resource, the exit country's revenues could stagnate, creating a fiscal shortfall and thus impeding the exit country from assuming increased responsibility for closing the funding gap caused by the Danish exit.

(7) Capacity Development

Institutional support should be consolidated and focused on depth rather than breadth. In some instances, more emphasis should be placed on technical capacity development during the phase-out period to ensure that results are sustainable. Support in the form of technical assistance and other elements of internal capacity development in partner organisations and institutions require a longer period to achieve visible results. As such, institution-building processes with a medium- and long-term perspective should be considered with a view to target support to interventions that can realistically be achieved and sustained within the period of phasing out. Civil works (construction of buildings etc.) should be completed, which is often possible within a short time period. If recurrent expenditure is budgeted for operational maintenance, a relatively smooth phase-out of civil works can be implemented.

In some cases, the scale of work to be undertaken after the decision to phase out will be large and difficult to implement for the Danish representation alone. In such instances, technical support to the representation should be considered, as envisaged in the Guidelines[16]. The technical support could be in the form of a temporary management unit and be funded from programme budgets. A management unit tasked with programme support cannot undertake duties normally assigned to the Danish representation, such as policy dialogue with government representatives, negotiations with partner institutions, representation in steering committees, boards, and coordination groups, etc. Rather, the technical support/management unit can support the Danish representation by being tasked with e.g. re-focusing capacity development, supporting partner institutions with closure of agreements and final results reporting, providing technical assistance to secure the continuation of key activities, and otherwise addressing technical capacity constraints and reporting and monitoring weaknesses in partner organisations.

(8) Identification of transformation

It is important that interest in and/or possibilities for transformation of relations are identified early, as it takes considerable time to ensure a smooth transformation of relations.

[16] / "Guidelines for Country Programming", op.cit.

In contexts where there are indeed geo-strategic, commercial, cultural and political drivers for engaging in areas of mutual interest, the phasing out of traditional development cooperation will be characterised by a concomitant transformation into a more mature partnership. This transformation will see a process from phasing out traditional development cooperation to phasing in and over to these new areas of mutual interest, which entails a transformation of the relationship and a transition in the functioning and profile of the Danish representation. The earlier the areas of mutual engagement are identified the better. Planning for a phasing in and over to new types of partnership must go hand in hand, as is implied in the guidelines for country policy papers[17]. In other countries, these drivers will not be of the same importance, with development cooperation as the predominant Danish activity and with limited opportunities for Danish businesses. In such countries, the phasing out of development cooperation entails closure of the representation.

(9) Increasing Robustness of Programmes

Although one may argue that quick exits should be avoided, they remain a political reality. While it is always good practice to link exit to entry, it is perhaps even more important to do so in fragile states/countries in conflict. In such countries, security considerations may warrant a quick exit of development cooperation, in terms of both financial flows and human resources/technical assistance. Even if the country is not fragile or in conflict at the time of programming, political analyses may detect substantial country risks to which the appropriate response is to 'plan for exit'. In such country contexts, it is recommended that implementation through other partners be seriously explored, already during the planning process[18]. This would imply seeking delegated cooperation and/or implementation through multilaterals and in this manner obtaining maximum flexibility and robustness.

4. Practical Administrative Steps

The financial closure of programmes is an integrated aspect of exiting – in fact, the formal closure of programmes is not finished before the financial closure[19]. Experience has shown that the process is often intricate and its complexity under-estimated. Financial closure can be time-consuming, often dragging on years after the practical closure of the programmes. If not well planned, this process can impinge on efficiency and effectiveness and be relatively resource heavy in terms of personnel time.

When entering into an exit phase, a thorough and realistic review of activities will be needed. At an early stage, a clear overview is required of contracts, agreements and assets. A process plan should be made for reviewing and cancelling contracts and agreements. Similarly, a plan should be made to ensure the handling of handing-over/write-off of assets.

While the chief financial officer of the representation has an important and pivotal role, establishing a task force with management participation to steer and monitor the financial issues is viewed as good practice. Regular meetings of the task force support the overview of progress in particular regarding outstanding accounts. In this phase, close monitoring of the timeliness of reporting, accounts and audits is critical, and it is recommended to reserve

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17/ "Guidelines for the Development of Policy Papers for Denmark's Relations with Priority Countries", Danida, January 2013 http://www.amg.um.dk

18/ This is good practice not only due to the risk of a quick exit, but also since implementing traditional development cooperation is inherently difficult in such environments.

19/ "Guidelines for Completion of Programmes and Projects", Danida, July 2011 http://www.amg.um.dk resources to intensify the number and scope of audits. This can help reduce the number of outstanding accounts.

Strong focus must be on ensuring that documentation of results is collected and that the responsible programme officers have made sure that the reports are correctly made and uploaded. In this, as in other matters, it will be important to ensure quality control to ensure that all necessary information is correctly filled in. Experience has shown that it can be time-consuming and costly to seek to reconstruct these reports after the responsible officers have left. It is critical that mandatory information for Danida's open access site[20] and the programme database is properly filled in/uploaded. It must be stressed that early and specific attention should be given to proper archiving of documents. A plan for how to deal with the physical accounting material, which should be kept for a minimum of five years, should also be made.

Experience from previous exits has shown that it can be valuable to retain one or two local programme officers/accountants for a period after the formal closure of the development activities to steer the financial closure in association with a local auditing firm. The responsibility for outstanding accounts and closure of any possible cases of misuse must be clear. As the chief financial officer will in most cases have been reposted by that time, financial supervision must be arranged either through an officer in the region or through financial visits from headquarters. This should be factored into the exit plan for the representation.

5. Human resource issues

Solid attention to the issue of human resources by senior level management is critical to ensure a good and orderly exit. It is the responsibility of the representation's management to implement the termination of all staff positions and to ensure that all local staff members are given support to move on to alternative employment. As the Ministry of Foreign Affairs is a socially responsible employer, the Ministry wishes to provide assistance to staff being made redundant due to the closure of a representation or exiting from development cooperation. It is important that management exhibits awareness of the effects of such a decision on staff, notably locally employed staff. Management should be aware that while it may be in the interest of the representation to retain employees until the closure of activities, for some local staff members the primary interest will naturally be focused on securing future employment and therefore to leave the representation prior to its closure. While providing support to staff in seeking alternative employment, certain benefits to encourage staying on until activities have been wound up could be considered. Management should also plan for using significant time on staff issues, in order to ensure social responsibility and secure an orderly exit.

Experience shows that a good basis for the ensuing process has been achieved by:

- Informing staff in a professional and respectful manner;
- Providing the central messages to staff, including answers to questions regarding the rationale for the decision, the time horizon, next steps, and how the Ministry of Foreign Affairs seeks to assist its employees;

[20]/ Financial management guidelines have been developed for support through multilaterals, support through government and parastals, support to NGOs, and decentralised project accounting. These guidelines can be found on e.g. http://www.amg.um.dk

- Underlining that the decision is not due to dissatisfaction with staff; and
- Preparing to tackle potentially very different reactions.

The HR department of the Ministry of Foreign Affairs has been available to provide advice, guidance, and support as needed and requested by the representation.

Some of the measures taken during recent exits include:

- All rules and obligations were adhered to concerning local employee contracts and local labour market rules. The representations were asked to seek local legal advice to ensure all obligations were met and planned for, including possible redundancy allowances;
- Retention allowance was provided to staff that stayed on until the end of their contracts/closure of the representation;
- Competence development was tailored to improve the staff members' possibilities of alternative employment;
- Outplacement assistance and other support for job searching was provided through e.g. a local recruiting company.
- Psychological crisis assistance was organised with a local consultant or the MFA crisis advisor team.

It has proven important that the assistance provided is tailored to the needs and wishes of the individual staff member and to the opportunities for alternative employment locally.

Two key issues stand out from the brief review of Danida's experience in Benin, Nicaragua, and Zambia: First, continuation of at least one member of the representation's management until final closure of the programmes is important for both the necessary ongoing communication with partners and for retention of local staff. Second, the retention and motivation of local staff is critical to ensure appropriate continuation and re-orientation of activities after the decision to exit has been made.