

DISTRIBUTION OF DANISH OFFICIAL DEVELOPMENT ASSISTANCE – BILATERAL AND MULTILATERAL AID

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1. Introduction

This paper discusses the distribution of Danish Official Development Assistance (ODA) between bi- and multilateral aid and analyse the level and trends in expenditures to administration, security, refugees' reception and the Neighbourhood Programme.

Historically, in the Danish Parliament there has been a consensus that there should be a 50-50 division of the development assistance between bilateral and multilateral aid. Both forms of aid have always been regarded as being of importance for reaching the overall goal of Danish development assistance, poverty alleviation. Recently, there has again been a discussion on this principle in the Danida magazine "Development" (Udvikling¹).

The article in "Development" took as point of departure figures for bi- and multilateral aid for the period 2000 to 2006 as reported by Danida to the Development Assistance Committee (DAC), and discussed the difficulties in defining assistance as either bi- or multilateral: Is it e.g. bi- or multilateral assistance if Danida provides financial resources to UNICEF to implement a project in Bangladesh with the aim of reducing child mortality through provision of clean water? Should the answer depend on the modality by which the project is funded: Through a grant from Danida to UNICEF Headquarter in New York (Multilateral assistance?) or as part of a Danida supported water sector programme in Bangladesh (Bilateral assistance?) ?

Fortunately, DAC has standardised the reporting requirements, as this is the only way to obtain a uniform reporting from the DAC member countries. The distinction² between bi- and multilateral assistance is related to earmarking of the assistance, i.e. is it to be used in a specific country (Bilateral) or is it a general support to an international organisation for all its activities (Multilateral).

2. Comparison of Aid Distribution Among Selected DAC Countries

The following analysis first compares Denmark with a group of likeminded donors, with whom we often prefer to be compared. Table 1 is based on DAC figures for the 7 years period 2000 to 2006 and is in this paper only used to compare countries, not to analyse trends.

Table 1. Distribution (%) of ODA between Bi- and Multilateral Aid, 2000-2006.

Year	2000	2001	2002	2003	2004	2005	2006
DAC Total Bi	67	67	70	72	68	77	74
DAC Total Mu	33	33	30	28	32	23	26
Denmark Bi	62	63	63	59	59	64	65
Denmark Mu	38	37	37	41	41	36	35
Sweden Bi	69	72	63	74	76	67	72
Sweden Mu	31	28	37	26	24	33	28
Norway Bi	74	70	68	72	70	73	74
Norway Mu	26	30	32	28	30	27	26
UK Bi	60	57	71	61	68	76	70
UK Mu	40	43	29	39	32	24	30
Netherlands Bi	72	70	73	71	64	72	79
Netherlands Mu	28	30	27	29	36	28	21

Source: Calculated from DAC figures (OECD.StatExtract).

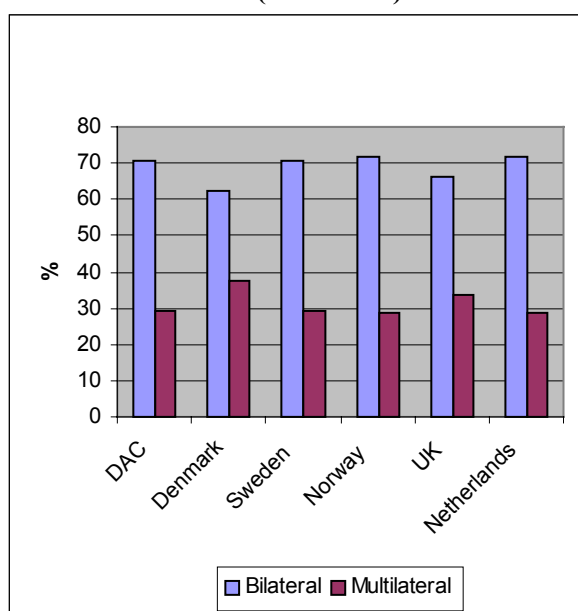
¹ Number 6, October 2007.

² DAC Statistical Reporting Directive, 34, 6th of April 2007.

The table shows that Denmark in all the years has provided a higher proportion of its ODA to multilateral aid than the other countries included, except for United Kingdom, which in 2000 and 2001 had a higher proportion of multilateral aid than Denmark. Compared to DAC as a total, Denmark has also in all the years provided a higher proportion of its aid through multilateral channels. A more detailed analysis of DAC data shows that basically only Ireland, the Southern European (Greece, Italy, Spain and Portugal) and East European (Czech Republic, Hungary, Poland and Slovak Republic) countries have a higher proportion of multilateral aid than Denmark. One explanatory factor for these countries having a relatively low proportion of bilateral aid is that their aid agencies are not as developed as the other major (including Denmark) DAC countries.

Based on table 1, the figure below shows the average distribution of bi- and multilateral aid for the compared countries. In terms of percentage of total aid, average multilateral aid from Netherlands, Norway and Sweden are equivalent to the average for all DAC countries (about 29%). The UK (34%) and Denmark (38%) both provide a higher proportion of assistance as multilateral aid.

Figure 1. Average Distribution of Danish bi- and multilateral aid (2000-2006). % of total.



Source: Calculated from table 1 figures.

A conclusion is that among the major donors, Denmark provides the highest proportion of its assistance as multilateral aid. Donors that provide a higher proportion of assistance as multilateral aid are to be found among (older aid) countries that have not build large aid agencies or are new on the “aid market”. Hence, Denmark can be said to be in the forefront of providing multilateral aid.

3. Trends in Distribution of Danish ODA

A closer analysis of the trend in distribution of Danish aid between the bi- and multilateral categories is best carried out on the basis of Annual Reports from Danida, as some of the major changes in statistical methods are explained in the Annual Reports. The following table shows the distribution in percent of Danish ODA between bi- and multilateral aid for the period 1963 to 2008.

Table 2. Distribution of Danish ODA Between Bi- and Multilateral Aid (%), 1963-2008. Adjusted Figures.

Period	Bi %	Mu %
1963/64-1968/69	46	54
1969/70-1974/75	55	45
1975/76-1979 ³	55	45
1980-1984	53	47
1985-1989	52	48
1990-1994	52	48
1995-1999	52	48
2000	54	46
2001	53	47
2002	59	41
2003	57	43
2004	55	45
2005	54	46
2006	57	43
2007*	56	44
2008**	58	42

Sources: Danida Annual Reports 1993, 1995, 1997, 1999, 2001, 2002, 2004, 2005 and 2006. Danish Ministry of Finance, *Approved Budget 2007 and **Budget Proposal 2008 (February 2008 version).

Due to recent significant changes in statistical methods an attempt has been made to adjust

³ The Fiscal Year 1978 was only 9 months due to the change in Fiscal Year from start 1st of April to follow the calendar year.

the figures from 2004 onwards in order to make the figures comparable with previous years. A *ceteris paribus* analysis is carried out in order to test if there has been a significant change in distribution of aid towards bilateral assistance, as is often claimed. Or is the explanation that items which before were regarded (and accepted) as multilateral assistance, for statistical purposes have been moved from multilateral to bilateral assistance, as a consequence of the tendency in recent years by DAC towards categorising more and more aid forms as bilateral aid? If this is the case, it becomes harder to safely claim that the old 50-50 consensus has been violated.

In the Danish Appropriations Act, development assistance is mentioned under section 6.3, and is divided in two major parts, bi- and multilateral aid. Over and above budgets mentioned under section 6.3, a number of other items are calculated as development assistance and are also reported to DAC, either as bi- or multilateral assistance. The major changes introduced in recent years, and which have had an impact on the official DAC figures for bi- and multilateral aid are described in the following.

Up until and including 2003, the EU community-financed assistance was included in the multilateral assistance under section 6.3. From 2004 onwards it is reported outside section 6.3 – but to make comparisons possible with previous years this amount should be added to the multilateral assistance. In e.g. 2006, the amount was DKK 865 million.

From 2005 onwards, the extraordinary humanitarian contribution, International Humanitarian Service and assistance to refugees and internally displayed people in regions of origin are reported as bilateral assistance. Before these disbursements were reported as multilateral assistance. For example, in 2006, an amount of DKK 810 million was used for these activities. To enable a comparison with previous years, this has also been adjusted by moving the amount from bi- to multilateral assistance.

These two⁴ adjustments have resulted in an increase in the calculated multilateral portion of the Danish ODA as compared to the section 6.3 figures by 9 - 12 percentage points since 2004. Section 6.3 figures have historically been used in the debate in Denmark when judging the size of bi- and multilateral aid.

Below is presented a summary of distribution of Danish ODA between bi- and multilateral aid.

Table 3. Average distribution of Danish ODA (%). Adjusted Figures.

Period	Bi %	Mu %
Average 1963-2008	53	47
Average 1963-2001	52	48
Average 2002-2008	57	43

Source: Calculated on the basis of table 2 figures.

Apart from the first years in the 1960s where the multilateral share was higher than the bilateral, and in 1995, where the bi- and multilateral aid was at the same level, the bilateral share has always been higher than the multilateral. It should be mentioned that even under the 50-50 consensus it has been accepted that there has been a slightly (by a few percentage points) higher bilateral than multilateral aid. However, from 2002 onwards, the bilateral share on average is higher than it was during the long period before. The gap between the bi- and multilateral portion of ODA is now widening.

A conclusion is that the share of multilateral aid is not as low as the DAC figures indicate. However, there is a clear trend since 2002 towards a lower share of multilateral aid as compared to previous years.

4. Other ODA Expenditures

Administration of development assistance is one of the largest expenses over and above

⁴ There might have been other statistical changes made over the course of time that significantly have changed the distribution between bi- and multilateral aid. However, as these have not been mentioned in Danida Annual Reports, this paper has not included adjustments on such basis.

section⁵ 6.3 development assistance. The table below summarises the size of the administration expenses as a percentage of total Danish ODA.

Table 4. Administration expenses as % of total Danish ODA.

	Administration %
1980-1984	0,9
1985-1989	3,2
1990-1994	6,2
1995-1999	5,6
2000	5,0
2001	4,6
2002	5,1
2003	5,3
2004	5,0
2005	5,1
2006	5,0
2007*	4,9
2008**	4,7

Source: Same as table 2. * and **: Same as table 2.

Apart from the 1980s and for some years in the first half of the 1990s, the administration expenses have been at a level of about 5 % of total Danish ODA. After 2003 the percentage allocated for administration has been decreasing, as a combined result of an increase in the absolute amount of total ODA and only marginally increasing administrative expenses in absolute terms.

It should be mentioned that this category by DAC is reported under bilateral assistance, and hence is also an explanatory factor for the higher bilateral share in DAC statistics than in Danida Annual Reports, as discussed above.

Administration is a necessary cost of providing aid, and the level of administrative

⁵ Administration expenses have never been reported in Danida Annual Reports as being part of bilateral (or multilateral) assistance. In 2004 it has been moved to become a part of the general administration expenses of the Ministry of Foreign Affairs. From 1991, research and development awareness expenses were booked under this category, which also includes some support to the Danish Association for International Cooperation and the Centre for Development Research. Support to the Fund for Democracy was also included in 2003. It is not known if (and when) these amounts have been taken away and booked under other categories.

expenses is also a determining factor for the quality of aid delivery.

Security and refugees' reception expenses are two other items that are often discussed.

Security expenses are found as two categories, Armed Forces and Police (in the section Government assistance not granted under section 6.3) and as Stability and Security Oriented Activities (under multilateral assistance). Refugees' reception expenses are a category outside section 6.3.

The table below shows the size of these categories during the period 2001 to 2008.

Table 5. Security and refugees' reception expenses as % of Danish ODA.

	Security % of ODA	Refugees % of ODA
2001	0,7	7,0
2002	0,4	6,7
2003	0,4	6,0
2004	0,6	4,2
2005	0,9	3,3
2006	1,2	1,9
2007*	1,1	2,8
2008**	0,5	1,6

Sources: Danida Annual Reports 2001, 2002, 2003, 2004, 2005 and 2006. * and **: Same as table 2.

A significant portion of the Danish ODA has been utilised for refugees' reception expenses. The level has been decreasing from 7% of ODA in 2001 to a budgeted level of 1.6 % in 2008. Also for a number of years before 2001 was the level of refugees' reception expenses high. The level of security oriented expenses has for most years been below 1 % of ODA. The "Stability and Security Oriented Activities" was introduced in 2004, but no allocation has been made for this category in 2008.

The Neighbourhood Programme was established in 2004 and covered in its first phase from 2004 to 2007 Russia, Belarus, the Western Balkan countries and Kosovo, Moldova, Caucasus, Ukraine, Turkey, Rumania and Bulgaria. In the second phase (2008-2012) Turkey, Rumania and Bulgaria are excluded, but Georgia and Azerbaijan are

specifically mentioned as being covered. Of the countries in the second phase only Moldova has a Gross National Income (GNI)/capita⁶ below USD 905, 11 other countries between USD 905 and USD 3,595 and 3 countries above USD 3,595.

Table 6. Neighbourhood Programme expenses as % of Danish ODA.

Period	NAB ⁷ % of ODA
2004	0,9
2005	1,0
2006	0,8
2007*	1,3
2008**	1,4

Sources: Danida Annual Reports 2005 and 2006. * and **: Same as table 2.

NAB: Neighbourhood Programme.

It is not known if the total support allocated to the Neighbourhood Programme is counted as development assistance. A total of DKK 850 million was allocated for phase one, of which DKK 730 was for activities supported by the Ministry of Foreign Affairs. An estimated total of DKK 450 million has been booked as part of Danish ODA during phase one.

It can be questioned whether the Neighbourhood Programme can count as development assistance, considering that the major part of the support is to middle-income countries. Vietnam, one of the 15 Danish Programme Countries, has a GNI per capita of USD 620, and is now in the process of graduating from Danish Programme Country status, as it is expected to become a middle income country by around 2010.

In particular – but not only – the category refugees’ reception expenses are worth discussing. The costs of receiving refugees have to be budgeted somewhere on the Danish Appropriations Act, and since 1992 it

⁶ The World Bank 2007 classification of countries are: Low income country: GNI per capita USD 905 or less, Lower middle income country: USD 906 – USD 3,595 and Upper middle income country: USD 3,596 – USD 11,115.

⁷ Support to the Danish Centre for International Studies and Human Rights are included.

has also been booked as development assistance in the DAC statistics. During the last 8 years, a total of DKK 4.3 billion has been booked under development assistance for this purpose. However, should it in Denmark be regarded as development assistance, it should, like all other things that falls under this category, be within the overall objective of the assistance, poverty alleviation. It is difficult to argue that this is the case. The same can be argued for the Neighbourhood Programme that mainly includes countries that would clearly fall outside the normal category of countries that Danida would support, as the countries are not among the poorest in the world.

Therefore it is and has been a dilution of the Danish development assistance, and it should have been financed over and above this. In other words, the percentage of GNI (at present 0.81%) that is allocated to development assistance should be “cleaned” of such expenses.

It has been argued that Danida just follows the way by which DAC has determined what can be calculated as development aid and what should be categorised as bi- and multilateral aid. This is of course correct, but Denmark can also, and together with other countries, as member of DAC⁸, influence the way in which development aid is reported and what should be reported as aid and what should not.

⁸ DAC can recommend to the High Level Meetings of Ministers for Development in OECD if changes should be implemented. Changes require consensus among countries.