



DEVELOPMENT CO-OPERATION TIPS TOOLS INSIGHTS PRACTICES

In practice

HITTING THE 0.7% ODA/GNI TARGET WHILE PROTECTING FUNDING COMMITMENTS

Key messages

A budget balancing mechanism allows Denmark to consistently reach the 0.7% target of gross national income (GNI) as official development assistance (ODA). The mechanism has helped to maintain widespread political support around ODA levels while multi-year funding commitments protect allocations to key partners and allow flexibility.

Keywords

Finance | Management systems | Official development assistance allocations

Key partner

Denmark

Challenge

A broad political consensus backs Denmark's commitment to allocate 0.7% of gross national income (GNI) as official development assistance (ODA). However, hitting the target without excessively overshooting it creates a challenge, partly due to fluctuations in the annual GNI estimate as well as to fluctuating in-donor refugee costs, which Denmark reports as ODA. In addition, ODA allocations are based on commitments approved by the Danish Parliament in the annual Finance Act, while achievement of the 0.7% of GNI as ODA target is based on disbursements, in line with OECD DAC requirements.

Approach

The 2017 Finance Act introduced a **budget balancing mechanism** to ensure that Danish ODA consistently reached at least 0.7% of GNI (without excessively exceeding it) while honouring funding commitments with partners. To achieve this goal, the mechanism allows Denmark to adjust the ODA budget to account for **fluctuations in GNI estimates and actual expenditures** over a three-year period, using a three-step approach:

1. **Planning** starts in March of one year (2020, for purposes of this explanation) for the next year's Finance Bill (2021) using an estimate for that upcoming year's GNI (based on the Ministry of Finance's estimate). This is the baseline for calculating the amount of ODA needed to reach the target of 0.7% of GNI.

2. At the **closing of accounts** in that year (at the closing of 2021, thus in early 2022), the Ministry of Finance updates the 2021 GNI estimate and makes known how much ODA would represent the 0.7% target (in 2021). The Ministry of Foreign Affairs (MFA) then compares this to the actual ODA expenditure (in 2021).
3. Any **difference** between the earlier estimate and the actual figure is either subtracted from (if a surplus) or added to (if a deficit) the coming year's (2023) Finance Bill. The adjustment allows to maintain a three-year average of 0.7% of GNI as ODA, as required by the Finance Act. This budget balancing mechanism activates for differences greater than DKK 100 million (USD 15 million), about 1% of the average annual budget.

The budget balancing mechanism also mitigates **fluctuations in in-donor refugee costs** within a financial year. If costs decrease by more than DKK 100 million compared to the budget, the so-called free funds are reallocated to development programmes within the same year. If in-donor refugee costs increase beyond their budget, the extra amount is added to the budget balancing amount, and the over-expenditure is equalised by a commensurate reduction in the next Finance Bill.

As the Finance Act is based on accrual accounting, the budget balancing mechanism is based on **commitments**. To manage discrepancies that may emerge after the closing of accounts (e.g. due to fluctuations in the GNI estimate after year-end), a **disbursement buffer** is added to the disbursement budget. This allows Denmark to disburse slightly above the amount expected to equal 0.7% of GNI during a financial year, and to ensure it lives up to the target of disbursing at least 0.7% of GNI as ODA. Denmark also works with partners to honour funding commitments while adjusting disbursements up or down at year-end.

Results

- Denmark has **consistently reported ODA slightly above the 0.7% of GNI target** since the budget balancing mechanism was introduced (0.74% in 2017, 0.72% in 2018 and 2019, and a preliminary 0.73% in 2020).
- **Multi-year funding commitments** for bilateral country programmes as well as for partnerships with key actors, such as civil society organisations and multilateral organisations, can be approved within one single Finance Act. As a result, allocations are protected over multiple financial years and a certain degree of flexibility on disbursements is made possible.
- In-donor refugee costs have gradually decreased since 2017. Therefore, the mechanism has not yet been used to stabilise the ODA budget in case of sudden increases of in-donor refugee costs within a financial year. Denmark can also choose what proportion of eligible in-donor refugee costs to report as ODA – practice varies across the DAC membership with some countries (e.g. Luxembourg) choosing not to include these costs in their ODA budget.

Lessons learnt

The budget balancing mechanism has helped Denmark to maintain **widespread political support** for the 0.7% of GNI as ODA target **while protecting annual commitments** in the Finance Act in the event of sudden changes to GNI or in-donor refugee costs. Adjusting commitments over several years, however, may become more challenging in the event of significant or recurrent reductions in GNI, as may be the case following the GNI drop due to the COVID-19 crisis.

Further information

Priorities of the Danish Government for Danish Development Assistance: <https://um.dk/en/danida-en/strategies%20and%20priorities/government-priorities---danish-development-assistance>.

OECD resources

OECD (2021), *Development Co-operation Peer Reviews: Denmark 2021: forthcoming on Peer reviews of DAC members - OECD*.

To learn more about Denmark's development co-operation:

OECD (2021), "Denmark", in *Development Co-operation Profiles*, OECD Publishing, Paris, <https://doi.org/10.1787/9b77239a-en>.

Last updated: 28-06-2021