



Oxfam IBIS analysis of Denmark's financing of in-donor refugee costs (December 2016)

New figures confirm that the Danish government is increasing its in-donor refugee spending from the aid budget, despite a substantial decline in the number of asylum seekers arriving in Denmark. According to the latest figures from the Ministry of Refugees and Immigration, 5,829 asylum seekers arrived in Denmark in the period from 1 January to 4 December 2016, which is far below the government's original forecast of 25,000 people. Accordingly, the Danish government ought to reallocate a three-figured million amount from in-donor refugee costs to actual development aid in 2016. This analysis sums up Denmark's practice and interpretation of international guidelines for spending development aid on financing in-donor refugee costs, and examines the Danish government's latest policy signals.

Background

In October 2016, the National Audit Office was requested by the Folketing (Danish parliament) to launch an investigation into the Danish practice of covering in-donor refugee costs via the development aid budget. More specifically, the investigation will document the Danish calculation model for financing refugee reception, including government procedures, methods and practices, and will also assess whether procedures and practices are in accordance with the OECD DAC reporting directives. The investigation is due to be finalized in six months and the outcome will naturally have an immense impact on the policies of both the incumbent and future governments.

Denmark is among the countries that report the highest in-donor refugee costs as part of its development assistance. Indeed, for 2017 the government has allocated DKK 2.77 billion from the development aid budget to refugee reception, which amounts to 18.4% of Denmark's total development aid (DKK 15.02 billion). By comparison, Sweden has set aside SEK 8.1 billion for refugee reception in its aid budget for 2017, which represents an increase from 2016 of SEK 2.2 billion, making up 17.6% of the total Swedish development aid budget for 2017. Norway is expected to spend NOK 3.7 billion from its development aid budget on refugee reception in 2017, which is half of the amount for 2016, and is foreseen to take up 11% of the total Norwegian development aid budget for 2017.

The level of spending on refugee reception should, of course, be assessed in the context of the numbers of asylum seekers. In the first 10 months of 2016, Sweden had received 24,719 asylum seekers, Norway had received 17,169, while around 5,829 persons have thus far applied for asylum in Denmark in 2016.¹

DAC reporting guidelines: two articles and a footnote

Reporting the spending of development aid on in-donor refugee costs is in accordance with the international guidelines, but is far from the overall OECD DAC objective and definition of official development assistance (ODA), which is "government aid designed to promote the economic development and welfare of developing countries". The OECD DAC guidelines (called DAC Statistical Reporting Directives) on in-donor refugee costs were agreed in 1988, and consist of only two articles and a footnote. The guidelines are thus rather general, and are interpreted very differently from one member state to another. A few member states are clearly using them to finance the growing costs of refugee reception from the budget for development aid.

The OECD DAC secretariat has identified three areas that are particularly subject to individual interpretation by member states: 1) transfer of refugees from reception centres to host municipalities (if

¹Sources: the Swedish Migration Agency, Norwegian Directorate of Immigration, Danish Ministry of Immigration and

expenses are considered 'integration', they are not eligible; 2) voluntary repatriation, distinguishing between voluntary and forced repatriation, as the latter cannot be counted as ODA; 3) administration costs.

Overview of OECD DAC's guidelines for what can be recorded as ODA

- **12 months:** OECD DAC guidelines permit inclusion of sustenance costs of refugees in a donor country for the first 12 months. After 12 months, expenditures are no longer considered ODA-eligible.
- **Integration:** OECD DAC guidelines are very clear in excluding costs spent on promoting integration of refugees into the economy of the donor country.
- **Administration costs:** Though the OECD DAC guidelines do not explicitly refer to administration costs, several member states nevertheless include administrative costs of reception centres, interpreting, asylum processing and legal aid in their DAC reporting.

Furthermore, the OECD DAC secretariat distinguishes between asylum seekers with 'temporary' and 'permanent' needs. Spending on refugees taking up long-term or permanent residence is considered integration and is consequently excluded under the OECD DAC guidelines.

Denmark making full use of the rules

In their enactment of the National Budget for 2017, the Liberal Party of Denmark, Danish People's Party, Liberal Alliance and Conservative People's Party stressed that the scope for reporting in-donor refugee costs financed by development aid should be fully utilised. This agreement was reconfirmed in the new policy platform of the three-party coalition government formed in November 2016, which affirms that the Danish government will utilize the OECD DAC guidelines to its full potential.

The Danish government has recently clarified that Denmark's main calculation method of DAC-eligible expenditure on refugee reception is based on the 12-month period. In principle, there is no distinction between different categories of refugees, their status after asylum processing or the various types of activities, as long as these take place within the first 12 months of the refugees' stay in the country. Accordingly, Denmark clearly applies one of the broadest interpretations of the OECD DAC guidelines compared to other OECD DAC member states.

According to the government's own data, the average ODA-eligible expenditure per asylum seeker was DKK 118,303 in 2014, while the Dutch government reported average expenditure of DKK 173,364 in the same year. This put Denmark in second place among OECD member states as regards average cost level per asylum seeker, surpassed only by the Netherlands (see Table 1). According to Altinget², Denmark's average spending per asylum seeker is expected to rise to DKK 267,500 in 2017,³ and though such cost projections are subject to great uncertainty, the average costs per asylum seekers are undoubtedly expected to increase substantially in both 2016 and in 2017 (see explanation in the next section).

Table 1) Average expenditure per asylum seeker reported to the DAC as ODA in selected OECD member countries in 2014

DKK*	Denmark	Sweden	Norway	Finland	Netherlands	Germany
2014	118,303	64,735 – 86,152	75,593	74,377	173,364	48,361

Source: ODA reporting of in-donor country refugee costs, OECD DAC 2016

* USD converted into DKK (USD 1 = DKK 5.429)

² Danish political online magazine

³ Altinget: "Regeringen udhuler ulandsbistanden med næsten en milliard" [The government cuts development aid by almost a billion], August 2016

Lack of transparency

The current Danish reporting practice is based on monthly accounts of refugee expenditure. The calculation of ODA-eligible costs takes account of average costs per refugee in previous years or actual costs in the ongoing year, depending on the cost item, multiplied by the actual number of asylum seekers who have stayed in Denmark for less than 12 months. Consequently, Denmark's DAC-reported expenditure is based on a mere estimate of the average cost of refugees during their first 12 months in Denmark after applying for asylum (see page 4).

However, since the internal principles and procedures used by the Ministry of Immigration and Integration are not public, it cannot be ascertained to what extent they conform to the OECD DAC guidelines, or whether they leave scope for interpretation. In addition, the lack of transparency concerning internal principles and procedures seriously complicates an analysis of the current government's practices, e.g. spending levels for various cost categories, and of the appropriateness of the calculation models used. It also makes it hard to judge whether the expenditure level is reasonable or not.

The Danish government insists that the current calculation method adheres to the OECD DAC guidelines and has not changed since the previous government⁴. In that case, OECD DAC reporting under the current and former governments ought to be directly comparable. However, a new calculation method is due to be implemented starting in 2017, as a result of analyses by an inter-ministerial group of civil servants (see page 5).

Nonetheless, a direct comparison between different budget years is complicated by the OECD DAC guidelines, which allow for financing the sustenance of asylum-seekers within the first 12 months of their stay. This implies that when approx. 55% of asylum-seekers arrived in Denmark during the fourth quarter of 2015, the bulk of expenditure would be financed from the 2016 budget. Due to this timing mismatch, the total expenditure incurred in a given budget year cannot be derived from the actual number of asylum seekers arriving in that same budget year.

Even so, it is puzzling that the cost of reception centres and of asylum seekers staying in Denmark is projected to be higher in 2017 than in 2015, despite the number of asylum seekers being less than half (see Table 3). Furthermore, given that four times fewer people will seek asylum in Denmark in 2016 than forecast, it is not unlikely that Danish development aid is co-financing empty housing facilities in Denmark. To ensure the required accommodation capacity, the relevant Danish authorities have probably entered into long-term contracts for 2016, thus being tied to spending on rent, energy, water and day-to-day running costs, even if many housing facilities are no longer needed due to the lower number of asylum seekers. It is uncertain how much aid is spent on empty housing, but it is potentially a considerable amount.

Nor is a more precise comparison possible on the basis of the average expenditure per asylum seeker reported to the OECD DAC, since the composition of asylum seekers may impact greatly on the cost level. For instance, the government's temporary halt to acceptance of UNHCR quota refugees in 2016, or an increase in arrivals of unaccompanied refugee children, may substantially affect the average expenditure. Even so, it is remarkable that the average price is expected to increase by approx. one third from DKK 118,303 per asylum-seeker in 2014 under the Social Democratic-led coalition government to DKK 176,000 in 2016 under the Liberal-led coalition government (the latter figure is estimated by Altinget).

The difference between pre-asylum and post-asylum (integration)

The lion's share of Denmark's DAC-reported refugee expenditures, about DKK 2.9 billion in 2016, pertains to the pre-asylum period, covering costs such as board, lodging, sustenance and other necessities, in addition to processing of asylum applications. Moreover, approx. DKK 0.3 billion in 2016 is classified as

⁴ See, for instance: <http://www.altinget.dk/udvikling/artikel/nye-besparelser-paa-ulandsbistanden-naeste-aar>

post-asylum expenditure, covering the costs of the integration programme, basic state grants to municipalities and integration benefits.

The calculation of pre-asylum costs is based on an average asylum processing time of nine months, after which refugees are moved to host municipalities following a waiting period of about six weeks. The ODA-eligible post-asylum period thus typically varies from 1 to 3 months. Post-asylum expenditure skyrocketed in 2015, since some post-asylum expenditure occurring in 2016 was paid over the 2015 budget, due to technical accounting rules (see Table 2).

Table 2: Annual changes in Denmark's pre- and post-asylum costs reported to the DAC as ODA

(DKK millions)	2011	2012	2013	2014	2015	2016	2017
Pre-asylum costs	593.0	743.7	820.4	1,370.5	1,864.2	2,900	N/A
Post-asylum costs	56.8	15.0	116.3	19.1	805.5	300	N/A
Total	649.8	758.7	936.7	1,389.6	2,669.7	3,200*	2.77**

Source: Danish Ministry of Foreign Affairs, Legislative Bill No. 192, 2016.

* Following the approval of the government's Budget Memorandum (*Aktstykke*) No. 40, total expenditure for 2016 will be DKK 3.46 billion. It remains impossible to work out a breakdown into pre- and post-asylum costs.

** Expected expenditure in accordance with the National Budget agreement between the Liberal Party of Denmark, Danish People's Party, Liberal Alliance and Conservative People's Party.

Pre-asylum costs reported to the OECD DAC

Notwithstanding the marked reduction in the forecast for combined pre-asylum expenditure, the Danish government still expects to finance around 75% of all such costs from the development aid budget in 2016, of which operational costs and accommodation remain by far the largest categories.

Pre-asylum costs in more detail

- **Reception centre system.** This covers spending on buildings, rent, energy, water, refuse collection, operational and maintenance costs. The government expects to report approx. DKK 437 million of this as ODA in 2016, which amounts to 70% of total expenditure. The government's expanded definition of ODA eligibility in its 2017 reporting means that the amount taken from the development aid budget will increase by about 53% compared to 2016.
- **Stay of asylum seekers.** This encompasses the costs of refugees staying in Denmark, including, for instance, teaching, job activation, leisure activities and health services. The government expects to report approx. DKK 662 million of this as ODA in 2016, which amounts to 70% of total expenditure. The government's expanded definition of ODA eligibility in the reporting for 2017 means that the amount taken from the development aid budget will increase by about 12% compared to 2016.
- **Individual cash benefits.** This encompasses money for food and other living expenses, including a family allowance for asylum seekers with children. The government expects to report approx. DKK 203 million of this as ODA in 2016, which amounts to 70% of total expenditure. The government's expanded definition of ODA eligibility in the reporting for 2017 means that the amount taken from the development aid budget will increase by 6% compared to 2016.
- **Danish Immigration Service.** This encompasses spending on processing of asylum claims, including wages, operational costs and interpreting. The government expects to report approx. DKK 225 million of this as ODA in 2016, which amounts to 64% of total expenditure.
- **Danish Refugee Appeals Board.** This includes the costs of holding board meetings to address complaints about asylum decisions. The government expects to report approx. DKK 42 million of this as ODA in 2016, which amounts to 93% of total expenditure. The government's expanded definition of ODA eligibility in the reporting for 2017 means that spending on the Refugee Appeals Board taken from the development aid budget will increase by 354% compared to 2016.

Table 3) Annual changes in selected pre-asylum costs reported to DAC as ODA
(Source: Foreign Affairs Committee, question 244)

(DKK millions)	2011	2012	2013	2014	2015	2016*	2017**
Reception centre system	145.8	216.6	213.8	396.8	548.2	443.1	668.2
Stay of asylum seekers	312.6	361.1	370.7	576.2	802.2	595.9	742.6
Refugee Appeals Board	22.4	17.0	38.1	48.5	37.7	42.2	149.3
Immigration Service	45.4	45.4	65.2	155.4	165.3	255.9	230.5
Individual cash benefits	61.6	79.4	93.2	160.7	221.9	203.6	215.8
Refugee reception	3,806	6,148	7,557	14,792	21,316	10,000	10,000

* Cost estimate by Danish Ministry of Foreign Affairs (August 2016). The downward adjustments arising from Budget Memorandum (Akstykke) No. 40 have not been taken into account.

** Cost estimate for 10,000 asylum seekers

The government's Budget Memorandum No. 40 of 29 November 2016 will reduce the cost item of stay of asylum seekers by DKK 193 million, individual cash benefits by DKK 135 million and integration benefits associated with the integration programme by DKK 340 million in 2016. The provisions of the Budget Memorandum has not yet been passed in Parliament and thus not taken into account in the table above.

Post-asylum costs reported to the OECD DAC

According to Altinget, ODA-eligible costs were expanded under the former government to include refugees who have been granted asylum and resettled in host municipalities (Altinget 2016). This partly explains the substantial increase in post-asylum costs in 2015. In a reply to the Danish Parliament from November 2016, the Minister of Immigration and Integration, Inger Støjberg, confirms that approx. 11% of the ODA-eligible in-donor refugee costs reported to DAC in 2016, was related to integration programmes and integration benefits.

- **Job activation offers and Danish language teaching.** This encompasses obligatory Danish language courses as well as courses in Danish social affairs and culture, job activation opportunities, wage subsidies, vocational education, mentor schemes and the like. Danish language courses accounts for about 70% of expenditure in this area. The government expects to report approx. DKK 343.1 million of this as ODA in 2016, which amounts to 21% of total expenditure.
- **Integration benefits under the integration programme.** This encompasses integration benefits and basic state grants for social expenditure at the municipal level. The government expects to report approx. DKK 595.9 million of this as ODA in 2016, which amounts to 35% of total expenditure.
- **Repatriation.** This encompasses the cost of voluntary repatriation, resettlement and up to five years of financial benefits associated with repatriation. It has not been possible to find figures for 2016, but the government expects to report approx. DKK 56 million of this as ODA in 2017, which amounts to 96% of total expenditure.

Table 4) Annual change in selected cost items within the integration programme reported to the DAC as ODA
(Source: Foreign Affairs Committee, question 244)

(DKK millions)	2011*	2012*	2013	2014	2015	2016**	2017***
Job activation and Danish lessons	N/A	N/A	78.4	16.2	220.0	343.1	103.7
Integration benefits	N/A	N/A	27.4	33.9	40.2	595.9	153.6

* Not available

** Cost estimate by Danish Ministry of Foreign Affairs (August 2016)

*** Cost estimate for 10,000 asylum seekers

According to the Danish Ministry of Foreign Affairs, spending on the integration programme has been reported as ODA to the OECD DAC since 2012, whereas costs for job training and activation was only included in 2013. The government's Budget Memorandum No. 40 of 29 November 2016 suggests a reduction in spending on integration benefits associated with the integration programme by DKK 340 million in 2016. The Budget Memorandum has yet to be passed by the Folketing and its provisions have thus not been taken into account in the table above.

It is highly questionable whether ODA spending on the integration programme and integration benefits is compatible with OECD DAC guidelines. Earlier this year Altinget revealed how the Danish government transferred DKK 220 million to municipalities in 2015 to finance Danish language lessons and job training for refugees holding temporary residence permits, reporting these costs as aid, even though a number of experts claimed that this was against the international guidelines.

The government's own interpretation of the guidelines generally implies that expenditure is never defined as integration until after the 12 months' period. However, without access to detailed information on participants and specific activities, it is difficult to assess whether the Danish reporting should be viewed as temporary, and hence as ODA-eligible according to the guidelines, or rather as long-term or permanent interventions focusing on integrating refugees into Danish society, and hence should be excluded from the development aid budget.

In one particular area, Denmark is likely to breach the OECD DAC guidelines by including the cost of repatriating refugees who have resided in Denmark beyond the 12-month period. A reply from the Ministry of Foreign Affairs to OECD DAC, from November 2016, reveals that Denmark includes repatriation, resettlement and financial benefits for refugees who have stayed in Denmark for longer than 12 months in its OECD DAC reporting of ODA. But this violates the OECD DAC guidelines, which explicitly exclude expenditure after the 12 months' period from in-donor refugee reporting. The National Audit Office's ongoing inquiry will be crucial to shed light on this practice.

Review of the 2017 National Budget agreement

In the course of summer 2016, an inter-ministerial group of civil servants analysed the scope for expanding Denmark's reporting of in-donor refugee costs as ODA within the framework of the OECD DAC guidelines. By August 2016 the group had identified a series of new ODA-eligible cost items in areas such as repatriation, reintegration and grants to municipalities, which totalled DKK 377 million, based on the spring forecast of 20,000 asylum seekers in 2016.

Against this background, the Danish People's Party, The Conservative Peoples Party, Liberal Alliance and the Liberal Party of Denmark decided, in November 2016, to expand the reporting of ODA expenditure to the OECD DAC to include police asylum processing costs, so-called standalone benefits to refugees and reimbursement of expenditure for temporary accommodation of refugees. This expansion is expected to increase in-donor refugee costs reported to the DAC as ODA by DKK 92 million in 2017, DKK 72 million in 2018, DKK 63 million in 2019 and DKK 59 million in 2020. The expanded DAC reporting practice should, according to the Ministry of Foreign Affairs, have no effect on the 2016 budget. However, Denmark's already high spending of development aid on refugee reception will increase by yet another DKK 286 million in the period 2017-2020.

In the National Budget Act for 2017, the government had originally allocated DKK 3.96 billion to in-donor refugee costs based on a forecast from May 2016 of 20,000 asylum seekers arriving in 2017. In August 2016, this figure was adjusted to 10,000, leading to a projected reduction in expenditure of DKK 2.68 billion within a total development aid budget of DKK 15.02 billion.

Table 5) Overview of ODA spending on refugee reception in 2017

National Budget 2017 (1)	National Budget 2017 revised (2)	National Budget 2017 passed (3)
DKK 3.96 billion	DKK 2.68 billion	DKK 2.77 billion

1) Based on a forecast from May 2016 of 20,000 asylum seekers

2) Based on a downward adjustment to 10,000 asylum seekers

3) Including an additional DKK 92 million reported to the DAC as ODA

The National Budget agreement is expected to add in-donor refugee costs of DKK 92 million to Denmark's OECD DAC reporting in 2017, which will bring Denmark's total in-donor refugee costs counted as ODA to a staggering DKK 2.77 billion in 2017, making up 18.4% of Denmark's total aid budget. This will be the highest share of Danish development aid to date, only surpassed by expenditure levels in 2016 due to the record numbers of refugees arriving in late 2015, which gave rise to extraordinarily high funding needs.

Review of the 2016 National Budget agreement

The Danish government has adjusted the budget for in-donor refugee costs in light of the substantial decline in the number of asylum seekers. Thus, in August 2016, the government lowered the forecast of new arrivals from 25,000 to 10,000 in 2016, and from 20,000 to 10,000 in 2017. This would presumably release about DKK 1.1 billion, of which the government wishes to allocate DKK 525 million to humanitarian assistance in 2016 and DKK 475 million in 2017. Moreover, DKK 435 million has been allocated for partial coverage of so-called negative overbudgeting of DKK 990.2 million, which was allocated within the 2016 National Budget Act to cope with the uncertainty of fluctuating numbers of refugees, and to meet the government's declared target of providing development aid of at least 0.70% of gross national income (GNI) in 2016.

The downward revision in August 2016 would potentially lead to a reduction of in-donor refugee costs reported to the OECD DAC from DKK 4.4 billion to about DKK 3.4 billion in 2016. In mid-November, Minister of Immigration and Integration Inger Støjberg, in a reply to the Parliament, estimated that the latest expenditure review from October 2016 would bring the figure down to DKK 3.2 billion, a reduction of almost 30% compared to the original forecast in the National Budget Act for 2016.

However, the October 2016 figures have since been adjusted to account for a lower GNI forecast for 2016. The Danish government accordingly submitted a Budget Memorandum to the Finance Committee on 29 November 2016, requesting a reallocation of DKK 938.3 million to the budget for real development aid, of which DKK 525 million is to be allocated to humanitarian assistance, while DKK 413 million is allocated to a partial write-down of overbudgeting within the foreign affairs budget. The Budget Memorandum does not include the revised 2016 figures for asylum-seekers, but it must be assumed that the Budget Memorandum is built upon a markedly lower figure than the 10,000 asylum-seekers forecast from August 2016.

The latest figures from the Ministry of Immigration and Integration show that 5,829 people have applied for asylum in Denmark in the period from 1st of January to 4th of December 2016. It is therefore surprising that the Danish government is not reallocating a larger amount to actual development aid in line with the substantially lower number of asylum seekers. Even after adjusting for the new GNI forecast, the government should reallocate three-figure millions amount from in-donor refugee cost to development aid, reflecting the vast difference of almost 75% between the original forecast of 25,000 asylum seekers and the actual number of arrivals as of early December 2016. However, there are no indications that the Danish government will reallocate additional funds from refugee reception to development aid within the 2016 budget.

Table 6) Overview of ODA spending on refugee reception in 2016

National Budget 2016 (1)	National Budget 2016 revised (2)	National Budget 2016 (October) (3)	National Budget 2016 (November)
DKK 4.4 billion	DKK 3.44 billion	DKK 3.2 billion	DKK 3.46 billion

1) Based on an original forecast of 25,000 asylum seekers

2) Based on a downward adjustment to 10,000 asylum seekers and expected reallocation of DKK 960 million

3) Based on an expected additional downward adjustment as foreseen by the Minister of Immigration and Integration (November 2016)

4) Based on Budget Memorandum (*Aktstykke*) No. 40 in view of an unknown number of asylum seekers (November 2016)

In 2016, Denmark's total in-donor refugee costs reported as ODA are equivalent to 23.9% of total Danish development aid (about DKK 14.5 billion).

International clarification of the guidelines

The European refugee crisis is posing a fierce challenge to European aid levels, and the OECD DAC Secretariat is obviously aware of the differences in member states' calculations and reporting of in-donor refugee costs. A few member states want an expansion of the existing guidelines to include additional expenditure. However, the OECD DAC Secretariat does not favour an expansion, and has established an informal working group to clarify the guidelines and ensure a higher degree of comparability and transparency in the accounts of member states.

When the guidelines were up for negotiations some 15 years ago, the OECD DAC Secretariat made the following statement to the member states: *"The secretariat retains its long-held view that donors' expenditures on refugees who arrive in their countries – while commendable from a humanitarian point of view – do not make a sufficiently direct contribution to the economic development and welfare of developing countries to qualify as official development assistance. Including such data undermines the credibility of the ODA concept"* (OECD DAC 2001).

The OECD Secretariat has asked member states to contribute to an up-to-date survey of their use of categories, cost items and calculation models. At the same time, the OECD Secretariat requests that member states explain a series of specific expenses that may be subject to interpretation, such as the calculation of administration costs, which is not mentioned in the guidelines. Several member states must therefore explain and justify such expenditure. Member states were due to submit their contributions to the survey by the end of October 2016.

The OECD Secretariat is expected to present the outcome of the survey at the next working group meeting taking place on 19 December, 2016. In early 2017, the technical clarification and negotiation will proceed in a number of smaller working groups (e.g. the Expert Group on Statistical Data). However, the clarifications cannot be approved politically until the next OECD DAC Ministerial Meeting, which is likely to be held in late 2017 or early 2018. The clarifications and revised guidelines will thus not be implemented until 2019 at the earliest. Consequently, member states can continue their current practices and self-interpretations of the existing rules.

The Danish Ministry of Foreign Affairs has decided not to comment on the above analysis.

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